

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|-------------------------------------------------------|------------------|
| Local Unit of Government Type <input checked="" type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name COUNTY OF ALPENA, MICHIGAN | County ALPENA |
| Fiscal Year End DECEMBER 31, 2005 | Opinion Date MAY 15, 2006 | Date Audit Report Submitted to State JUNE 20, 2006 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

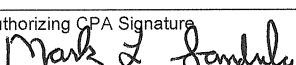
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|------------------------------------------------------------------------------------------------------------------|-------------------------------------|--------------------------------------------|----------------------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | |
| Other (Describe) | <input type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) STRALEY, ILSLEY & LAMP P.C. | | Telephone Number (989) 356-4531 | |
| Street Address 2106 U.S. 23 SOUTH | | City ALPENA | State MI |
| | | Zip 49707 | |
| Authorizing CPA Signature  | Printed Name MARK L. SANDULA | | License Number A 263243 |

COUNTY OF ALPENA, MICHIGAN

Financial Statements
For The Year Ended December 31, 2005

STRALEY, ILSLEY & LAMP P.C.

ALPENA COUNTY

BOARD OF COMMISSIONERS

Michael W. Nunneley - District 1

Richard A. Donakowski - District 2

Thomas Mullaney - District 3

Thomas A. Male, Sr. - District 4

Leonard T. Zolnierrek - District 5

Howard Male - District 6

Raymond Wegmeyer - District 7

Bill Estlack - District 8

Probate Judge

Douglas A. Pugh

District Judge

Theodore O. Johnson

Circuit Judges

John F. Kowalski

County Officials

Clerk

Bonnie Friedrichs

Treasurer

Joelyn K. McCallum

Sheriff

Steven Kieliszewski

Prosecuting Attorney

Dennis P. Grenkowicz

Register of Deeds

Kathy J. Matash

Coordinator

Jeff Thornton

Population (2000 Census) – 31,314

2005 Taxable Value -- \$1,116,554,765

TABLE OF CONTENTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

County of Alpena
December 31, 2005

| | <u>Page</u> |
|------------------------------------------------------------------------------------------------------------------------|--------------------|
| I. FINANCIAL SECTION | |
| Independent Auditors' Report | 1 |
| Management's Discussion and Analysis (required supplementary information) | 3 |
| Basic Financial Statements | |
| Government-Wide Financial Statements | |
| Statement of Net Assets | 13 |
| Statement of Activities | 14 |
| Fund Financial Statements | |
| Governmental Fund Financial Statements | |
| Balance Sheet | 16 |
| Reconciliation of the Balance Sheet to the Statement of Net Assets | 19 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances | 20 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities | 23 |
| Proprietary Fund Financial Statements | |
| Statement of Net Assets | 24 |
| Statement of Revenues, Expenses, and Changes in Net Assets | 25 |
| Statement of Cash Flows | 26 |
| Fiduciary Funds | |
| Statement of Net Assets | 27 |
| Component Unit Funds | |
| Statement of Net Assets | 28 |
| Statement of Activities | 30 |
| Notes to Financial Statements | 32 |
| Required Supplementary Information | |
| Major Funds - Budgetary Comparative Schedule | 57 |

| | <u>Page</u> |
|-------------------------------------------------------------------------------------------------------------------------|--------------------|
| Individual and Combining Fund Statements | |
| General Fund - Comparative Balance Sheet | 60 |
| General Fund - Budgetary Comparison Schedule of Revenues and Expenditures | 61 |
| Combining Balance Sheet - Nonmajor Governmental Funds | 66 |
| Combining Statement of Revenues, Expenditures and Fund Balances – Budget and Actual - Nonmajor Funds Governmental Funds | 72 |
| Combining Balance Sheet - Fiduciary Funds | 78 |
| Combining Statement of Changes in Assets and Liabilities - All Agency Funds | 80 |
| Schedule of Indebtedness | 82 |

STRALEY, ILSLEY & LAMP P.C.

2106 U.S. 23 SOUTH, P.O. BOX 738

ALPENA, MICHIGAN 49707

TELEPHONE (989) 356-4531

FACSIMILE (989) 356-0494

Certified Public Accountants

PHILIP T. STRALEY, C.P.A.
ROBERT D. ILSLEY, C.P.A.
BERNARD R. LAMP, C.P.A.
TERRENCE D. YULE, C.P.A.
MARK L. SANDULA, C.P.A.
JAMES E. KRAENZLEIN, C.P.A., C.V.A.
SHANNA M. JOHNSON, C.P.A.
DONALD C. LEVREN

TAX, AUDIT AND BUSINESS CONSULTANTS

RETIRED
GORDON A. NETHERCUT, C.P.A.
CARL F. REITZ, C.P.A.
WARREN W. YOUNG, C.P.A.

INDEPENDENT AUDITORS REPORT

To the Board of Commissioners
Alpena County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of **Alpena County, Michigan**, as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of **Alpena County, Michigan's** management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Alpena General Hospital, representing 63% of the assets and 88% of the activities of the discretely presented component units, the Alpena County Road Commission, representing 31% of the assets and 4% of the activities of the discretely presented component units, and the Alpena county Library, representing 3% of the assets and 1% of the activities of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion. Insofar as it related to the amounts included for the Alpena General Hospital, the Alpena County Road Commission, and the Alpena County Library is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of **Alpena County, Michigan** as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also separately issued our report dated May 15, 2006 on our consideration of **Alpena County's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise **Alpena County, Michigan's** basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

Stahy, Isky : Lamp P.C.

May 15, 2006

County of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the County of Alpena, we offer readers of the County of Alpena's financial statements this narrative overview and analysis of the financial activities of the County of Alpena for the fiscal year ended December 31, 2005.

Financial Highlights

- The assets of the County of Alpena exceeded its liabilities at the close of the most recent fiscal year by \$25,926,885 (*net assets*). Of this amount, \$13,342,452 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The County of Alpena's total net assets increased by \$1,828,288. This was the result of an increase in the net assets of governmental activities of \$1,846,979 and a decrease in the net assets of business-type activities of (\$18,691).
- The County of Alpena provided services of \$13,311,152 in governmental activities and \$46,671 of business-type activities for expenses totaling \$13,357,823 during the year ended December 31, 2005.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,052,980 or 12.9 percent of total general fund expenditures and operating transfers to other funds in comparison to \$828,702 at the close of the prior year, an increase of \$224,278.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the County of Alpena's basic financial statements. The County of Alpena's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the County of Alpena's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the County of Alpena's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County of Alpena is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the County of Alpena that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County of Alpena include legislative, judicial, general government, public safety, public works, health and welfare, community and economic development, recreation and cultural, and other. The business-type activities of the County of Alpena include the Delinquent Tax Payment Fund.

County of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

The government-wide financial statements include not only the County of Alpena itself (known as the *primary government*), but also the Alpena General Hospital, Alpena County Road Commission, Alpena County Library, and several Multi-county agencies for which the County of Alpena is financially accountable. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself. The County of Alpena Building Authority, although also legally separate, functions for all practical purposes as a department of the County of Alpena, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 13-15 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County of Alpena, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County of Alpena can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County of Alpena maintains thirty individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Ambulance, Housing, and Revenue sharing funds, all of which are considered to be major funds. Data from the other twenty-six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic governmental fund financial statements can be found on pages 16-23 of this report.

Proprietary funds. The County of Alpena maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County of Alpena uses enterprise funds to account for its Delinquent Tax Payment fund. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the County of Alpena's various functions. The County of Alpena uses internal service funds to account for its building and grounds maintenance. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Delinquent Tax Payment fund, which is considered to be a major fund of the County of Alpena. Conversely, the internal service fund is a single presentation in the proprietary fund financial statements.

County of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

The basic proprietary fund financial statements can be found on pages 24-26 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the County of Alpena's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 27 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 32-56.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the County of Alpena's general and major governmental funds' budget comparisons. Required supplementary information can be found on pages 57-59 of this report.

Combining and individual fund statements and schedules can be found on pages 60-86 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County of Alpena, assets exceeded liabilities by \$25,926,885 at the close of the most recent fiscal year.

The largest portion of the County of Alpena's net assets \$13,342,452 (51.5%) reflects its (*unrestricted net assets*) which represents funds available to meet the government's ongoing obligations to citizens and creditors. The investment in capital assets \$9,894,674 (38.1%) (e.g., land, buildings, and equipment); less any related debt used to acquire those assets that are still outstanding. The County of Alpena uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the County of Alpena's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

COUNTY OF ALPENA'S, Net Assets

| | Governmental Activities | | Business-type activities | | Total | |
|----------------------------------------------------|-------------------------|--------------|--------------------------|--------------|--------------|--------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Current and other assets | \$11,231,177 | \$12,649,980 | \$8,826,397 | \$ 8,843,328 | \$20,057,574 | \$21,493,308 |
| Capital assets | 13,709,794 | 13,825,979 | - | - | 13,709,794 | 13,825,979 |
| Total assets | 24,940,971 | 26,475,979 | 8,826,397 | 8,843,328 | 33,767,368 | 35,319,287 |
| Current liabilities | 4,620,768 | 6,318,960 | 9,766 | 8,006 | 4,630,534 | 6,326,969 |
| Noncurrent liabilities | 3,209,949 | 4,893,720 | - | - | 3,209,949 | 4,893,721 |
| Total liabilities | 7,830,717 | 11,212,680 | 9,766 | 8,006 | 7,840,483 | 11,220,690 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 9,894,674 | 9,168,507 | - | - | 9,894,674 | 9,168,507 |
| Restricted | 2,689,759 | 2,734,970 | - | - | 2,689,759 | 2,734,970 |
| Unrestricted | 4,525,821 | 3,359,799 | 8,816,631 | 8,835,322 | 13,342,452 | 12,195,120 |
| Net assets: | \$17,110,254 | \$15,263,276 | \$8,816,631 | \$8,835,322 | \$25,926,885 | \$24,098,597 |

County of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

An additional portion of the County of Alpena's net assets \$2,689,759 (10.4%) represents resources that are subject to external restrictions on how they may be used.

At the end of the current fiscal year, the County of Alpena is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The government's net assets experienced an increase of \$1,828,288 during the current year. This was the result of Governmental activities ongoing revenues outstripping similar increases in ongoing expenses by \$1,846,979. Business-type activities experienced a small decrease of (\$18,691) in net assets during the current fiscal year.

COUNTY OF ALPENA'S, Changes in Net Assets

| | Governmental Activities | | Business-type activities | | Total | |
|--------------------------------|-------------------------|--------------|--------------------------|--------------|--------------|--------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 5,146,519 | \$ 4,889,074 | \$ 405,650 | \$ 513,809 | \$ 5,552,169 | \$ 5,402,883 |
| Operating grants | 1,690,229 | 1,921,036 | - | - | 1,690,229 | 1,921,036 |
| Capital grants | 522,483 | 783,177 | - | - | 522,483 | 783,177 |
| General revenues: | | | | | | |
| Property taxes | 7,034,212 | 6,865,075 | - | - | 7,034,212 | 6,865,075 |
| State revenue sharing | - | 331,629 | - | - | - | 331,629 |
| Investing earnings | 168,453 | 63,155 | 218,565 | 82,426 | 387,018 | 145,581 |
| Transfers | 596,235 | 257,744 | (596,235) | (257,744) | - | - |
| Total revenues and transfers | 15,158,131 | 15,110,890 | 27,980 | 338,491 | 15,186,111 | 15,449,381 |
| Expenses: | | | | | | |
| Legislative | 188,750 | 169,651 | - | - | 188,750 | 169,651 |
| Judicial | 1,274,425 | 1,364,466 | - | - | 1,274,425 | 1,364,466 |
| General government | 3,125,937 | 2,939,802 | - | - | 3,125,937 | 2,939,802 |
| Public safety | 3,753,395 | 3,726,926 | - | - | 3,753,395 | 3,726,926 |
| Public works | 1,667 | 666 | - | - | 1,667 | 666 |
| Health and welfare | 2,241,141 | 3,240,581 | - | - | 2,241,141 | 3,240,581 |
| Economic development | 375,386 | 334,598 | - | - | 375,386 | 334,598 |
| Recreation and cultural | 2,104,697 | 1,187,007 | - | - | 2,104,697 | 1,187,007 |
| Other | 373,037 | 317,603 | - | - | 373,037 | 317,603 |
| Interest on long-term debt | 245,754 | 229,940 | - | - | 245,754 | 229,940 |
| Delinquent tax fund | - | - | 46,671 | 265,511 | 46,671 | 265,511 |
| Total Expenses | 13,311,152 | 13,193,637 | 46,671 | 265,511 | 13,357,823 | 13,459,148 |
| Change in net assets | 1,846,979 | 1,917,253 | (18,691) | 72,980 | 1,828,288 | 1,990,233 |
| Net assets - beginning of year | 15,263,275 | 13,346,022 | 8,835,322 | 8,762,342 | 24,098,597 | 22,108,364 |
| Net assets - end of the year | \$17,110,254 | \$15,263,275 | \$8,816,631 | \$ 8,835,322 | \$25,926,885 | \$24,098,597 |

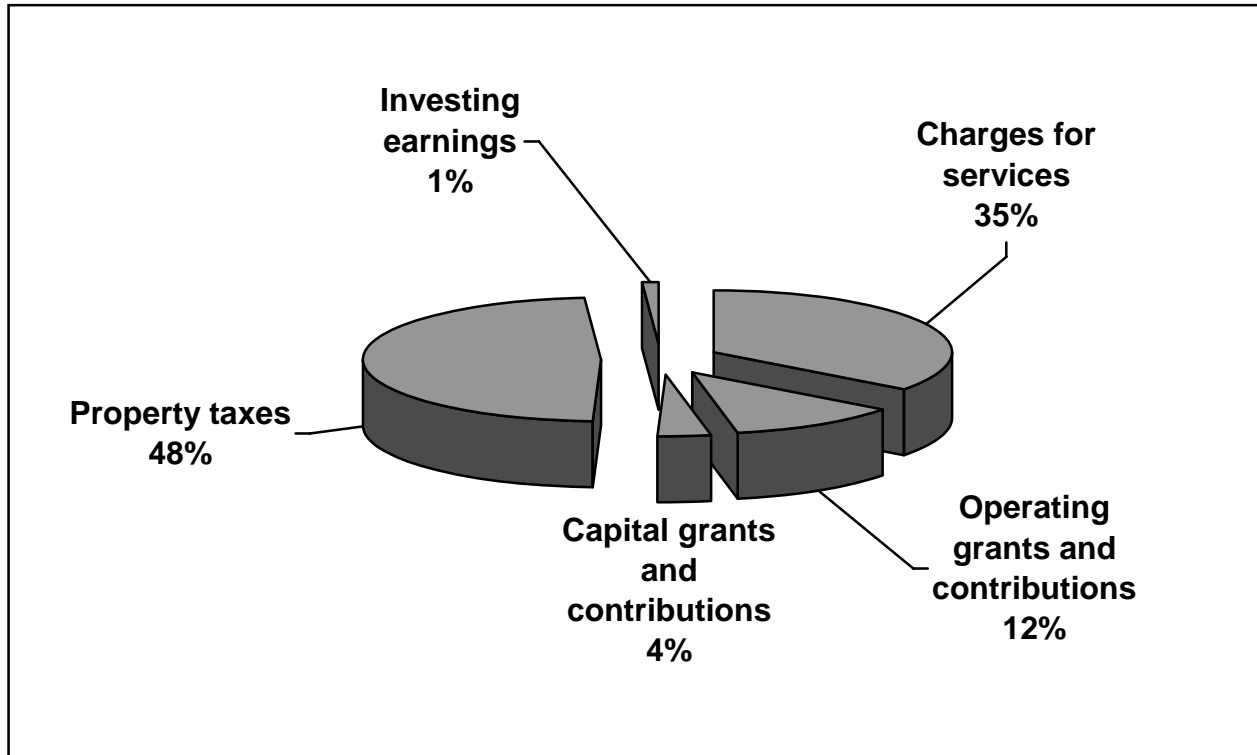
County of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental activities.

The following chart depicts revenues of the governmental activities for the year ended December 31, 2005:

Revenues by source - governmental activities.



In total, 2005 governmental activities program revenues decreased by (\$342,215) in comparison to 2004 revenues. This net decrease reflects an increase in charges for services of \$149,286, and decreases in operating grants of (\$230,807) and capital grants of (\$260,694). Property taxes increased by \$169,137 (2.0 percent) during the year. The county was also able to increase its investment earnings in 2005 to \$387,018 from \$145,581 in 2004. The elimination of state shared revenue caused a decrease of (\$331,629).

Property tax revenue, which is not assigned to any particular activity, remains the largest support for governmental activities at 48.3%. The increase in property tax revenues is a result of increase taxable values to \$1,116,554,765 from \$1,052,100,279. After December 2005, the last one third installment of the County's general operating tax millage will be placed in the Revenue sharing fund to provide a funding mechanism to serve as a substitute for the elimination of state revenue sharing.

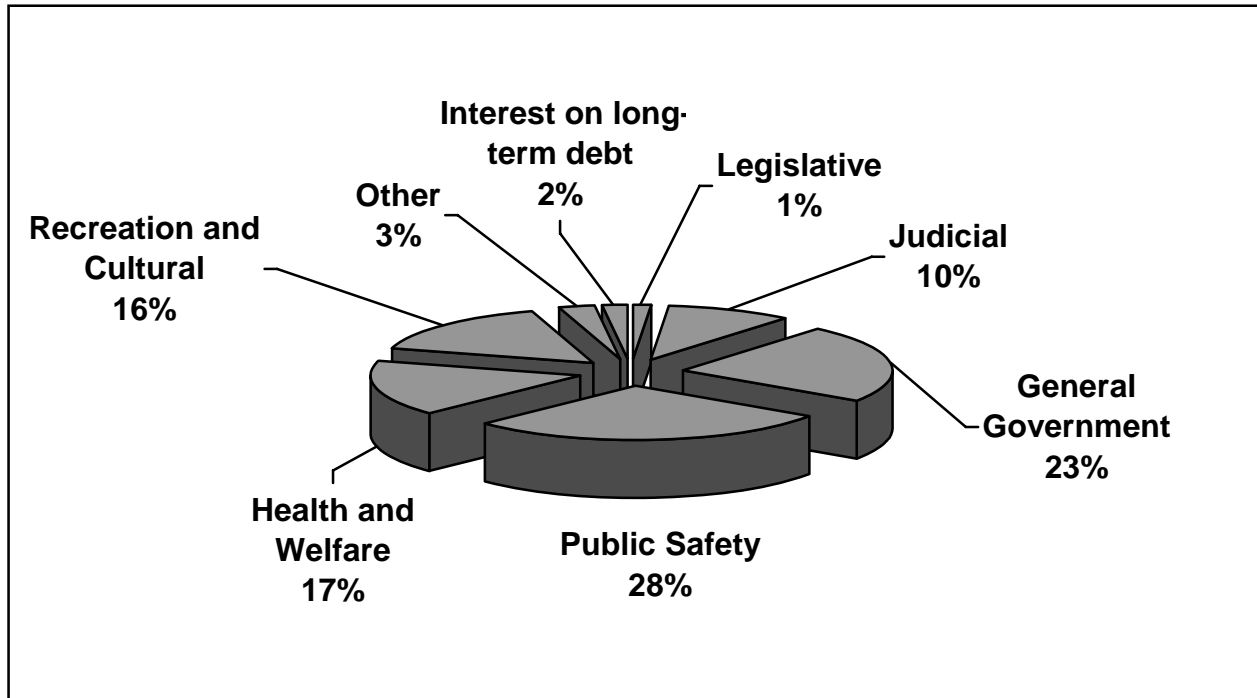
The charge for services revenue, which reimburses the County for specific activities, is the second largest source of governmental activity revenue at 35.3%. The \$5,146,519 earned in 2005 represents a decrease of \$68,278 over 2004.

Property taxes and charges for services account for over 83% of the governmental activities revenue sources.

County of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

Expenses by function/program - governmental activities.



Total governmental activity expenses increased slightly in 2005 by \$117,515 over 2004 expenses. A reduction occurred in the health and welfare activity which had a reduction of \$999,440 and judicial activity which decreased by \$90,041 over 2004. This was the result of the transition of the Friend of the Court and Circuit Court system to two counties from four counties. For the most part, other activities experienced an increase in expenses that closely paralleled inflation and growth in the demand for services. Alpena County continues to attempt to make reductions in expenditures to match the elimination of state shared revenue.

Public safety continues to be the largest governmental activity, expending \$3,753,395 of the \$13,311,152 total (28.2%). General government expenses are the second largest category at \$3,125,937 (23.5%). Health and welfare expenses are the third largest category at \$2,241,141 (16.8%). Over sixty-eight percent of the 2005 governmental activity expenses are a result of these three activities.

County of Alpena

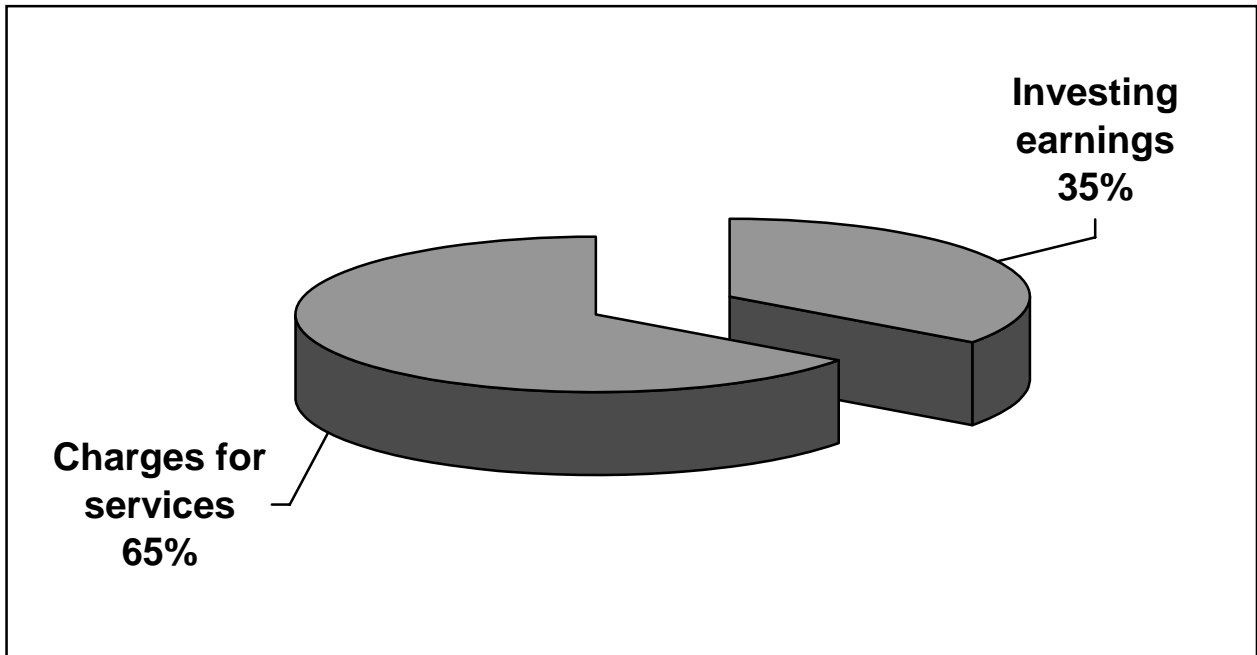
MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-type activities. The Delinquent Tax Payment Fund continues to provide local units within the County payment for their delinquent real property taxes. The operation of this fund continues to be a source of revenue to the County. As a result of earning \$577, 544 in the operation of the delinquent tax payment fund in 2005, \$596,235 was able to be transferred as an appropriation to the County of Alpena General Fund to subsidize the governmental activity expenses.

COUNTY OF ALPENA'S, Cost of Services – Business-type Activities

| | <u>Total Cost of Services</u> | <u>Program Revenues</u> | <u>Net Cost of Services</u> |
|--------------------------|-----------------------------------|-----------------------------|---------------------------------|
| Functions/Programs: | | | |
| Delinquent Tax Revolving | \$ 46,671 | \$ 405,650 | \$ (358,979) |
| Total expenses | <u>\$ 46,671</u> | <u>\$ 405,650</u> | <u>\$ (358,979)</u> |

Revenues by source - business type activities.



County of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis of the Government's Funds

As noted earlier, the County of Alpena uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the County of Alpena's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the County of Alpena's financing requirements. In particular *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County of Alpena's governmental funds reported combined ending fund balances of \$5,138,082 an increase of \$1,088,235 in comparison with the prior year. Approximately 92% of this total amount (\$4,714,932) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to pay debt service (\$204,908), 2) for future capital outlay (\$218,242).

The general fund is the chief operating fund of the County of Alpena. At the end of the current fiscal year, the fund balance of the general fund was \$1,191,312, of which \$1,052,980 was unreserved. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represented 12.9% of total general fund expenditures and operating transfers to other funds.

The fund balance of the County of Alpena's general fund increased by \$224,278 during the current fiscal year. Key factors are as follows:

- The General fund was able to increase its tax revenues \$111,547, and charges for services by \$117,612. Overall the General fund experienced an increase in revenues of \$91,029 despite the loss of (\$352,766) in state shared revenues, along with other decreases of state grant funding of (\$96,798) received from the State of Michigan. These decreases were partially offset by an increase of \$248,366 in federal grant funding.
- The expenditures and transfers out of the general fund increased by \$544,004. The majority of the increase was due to an increase in general government activity of \$213,374, public safety activity of \$175,127, and an appropriation increase of \$63,534. Offset by expenditure reductions in legislative, judicial, health and welfare.

The debt service funds have a total fund balance of \$160,908 all of which is reserved for the payment of future liabilities of bonds and loans and future compensated absence expenditures.

Proprietary funds. The County of Alpena's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Delinquent Tax Revolving fund at the end of the year amounted to \$8,816,631. The change in net assets for the funds was (\$18,691). Factors concerning the finances of these funds have already been addressed in the discussion of the County of Alpena's business-type activities.

County of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

Capital assets. The County of Alpena's investment in capital assets for its governmental and business type activities as of December 31, 2005, amounts to \$13,709,794 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, building and improvements, machinery and equipment and infrastructure.

COUNTY OF ALPENA'S, Capital Assets

| | Governmental Activities | |
|-------------------------------|-------------------------|----------------------|
| | 2005 | 2004 |
| Historical cost: | | |
| Land | \$ 172,984 | \$ 172,984 |
| Land improvements | 2,127,711 | 2,127,711 |
| Buildings and improvements | 14,358,371 | 14,348,195 |
| Office and computer equipment | 741,800 | 550,335 |
| Vehicles | 1,642,948 | 1,380,312 |
| | <u>19,043,814</u> | <u>18,579,537</u> |
| Accumulated depreciation: | | |
| Land improvements | (524,259) | (460,463) |
| Buildings and improvements | (3,911,123) | (3,537,035) |
| Office and computer equipment | (250,688) | (178,536) |
| Vehicles | (647,950) | (577,524) |
| | <u>(5,334,020)</u> | <u>(4,753,558)</u> |
| Net Capital Assets | <u>\$ 13,709,794</u> | <u>\$ 13,825,979</u> |

Long-term debt. At the end of the current fiscal year, the County of Alpena had total debt outstanding of \$4,048,285. Of this amount \$3,628,043 comprises general obligation bonded debt backed by the full faith and credit of the County. The County also has installment purchase agreement obligations of \$187,077 for the purchase of equipment. The balance of debt represents future compensated absences of \$233,165.

COUNTY OF ALPENA'S, Outstanding Debt, Bonds and Loans

| | Governmental Activities | |
|------------------------------------|-------------------------|---------------------|
| | 2005 | 2004 |
| General obligation bonds | \$ 820,000 | \$ 1,165,000 |
| Building authority bonds and loans | 2,808,043 | 3,160,104 |
| Installment purchase agreements | 187,077 | 332,368 |
| Compensated absences | <u>233,165</u> | <u>236,249</u> |
| | <u>\$ 4,048,285</u> | <u>\$ 4,893,721</u> |

County of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Years Budget and Rates

The following factors were considered in preparing the County's budget for the 2006 fiscal year:

- The current economy in Michigan continues to make it difficult for all local units of government to provide services to their residents.
- Healthcare costs will continue to escalate at a rate higher than inflation and require continued cost containment measures.
- The county will continue looking for any means of generating revenue allowable by law.
- Near overcrowding conditions of our jail has not only decreased anticipated revenue from the housing out of county inmates but trends show that inmate health care may take significant increases.
- Knowing that most of the counties in the state are in similar financial situations, efforts will be made to enter into "joint ventures" with other governmental agencies in purchasing, the pooling of resource and in providing services in an effort to save on cost.
- With the hiring of a new Plaza Pool Director, it is anticipated that with the implementation of new programs, attendance and revenues will increase.
- Maintenance cost of aging, inefficient county structures will be increasing. Band aides have been put on many of our structures numerous times. Now is the time for our Planning Commission to develop a capitol improvement plan of county's assets.
- 911 surcharge revenues are decreasing due to the number of homeowners decreasing their landlines and opting to use only cell phones or voice over internet.
- In 2006 the 911 wireless surcharge legislation sunsets and the state legislators must revise the current law to include provisions to adequately and fairly fund 911 services statewide.
- These combined with the State's reluctance to pay their PILT obligations creates some instability within our current budget with nearly 18% of Alpena County land being state owned.

Requests for Information

This financial report is designed to provide a general overview of the County of Alpena's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the County Treasurer, Courthouse, 720 W. Chisholm Street, Alpena, MI 49707.

County of Alpena

STATEMENT OF NET ASSETS

December 31, 2005

| | Primary Government | | | |
|----------------------------------------------------|----------------------------|-----------------------------|---------------|--------------------|
| | Governmental Activities | Business-type Activities | Total | Component Units |
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 743,573 | \$ 369,643 | \$ 1,113,216 | \$ 13,829,127 |
| Investments | 3,107,439 | 7,653,095 | 10,760,534 | 4,658,021 |
| Receivables | | | | |
| Taxes | 4,714,183 | 803,659 | 5,517,842 | 622,015 |
| Accounts and interest | 129,386 | - | 129,386 | 8,533,289 |
| Mortgage loans | 2,266,609 | - | 2,266,609 | - |
| Due from other governmental units | 264,204 | - | 264,204 | 1,086,641 |
| Inventories | 5,783 | - | 5,783 | 2,950,030 |
| Prepaid items | - | - | - | 3,925,060 |
| Total current assets | 11,231,177 | 8,826,397 | 20,057,574 | 35,604,183 |
| Non-current assets | | | | |
| Capital assets, net | 13,709,794 | - | 13,709,794 | 68,850,428 |
| Total Non-current assets | 13,709,794 | - | 13,709,794 | 68,850,428 |
| Total assets | 24,940,971 | 8,826,397 | 33,767,368 | 104,454,611 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Accounts payable | 148,001 | - | 148,001 | 2,760,424 |
| Accrued payroll and withholding | 109,997 | - | 109,997 | 2,872,018 |
| Other liabilities and deposits | - | 9,766 | 9,766 | 1,552,960 |
| Accrued interest payable | 48,105 | - | 48,105 | 114,985 |
| Advances payable | 33,000 | - | 33,000 | 158,471 |
| Unearned revenue | 3,443,329 | - | 3,443,329 | 2,782,917 |
| Compensated absences | - | - | - | 2,482,907 |
| Current portion of bonds and loans | 838,336 | - | 838,336 | 1,664,155 |
| Total Current liabilities | 4,620,768 | 9,766 | 4,630,534 | 14,388,837 |
| Non-current liabilities | | | | |
| Bonds and loans | 2,976,784 | - | 2,976,784 | 13,581,082 |
| Compensated absences | 233,165 | - | 233,165 | 655,034 |
| Total Non-current liabilities | 3,209,949 | - | 3,209,949 | 14,236,116 |
| Total liabilities | 7,830,717 | 9,766 | 7,840,483 | 28,624,953 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 9,894,674 | - | 9,894,674 | 51,411,157 |
| Restricted for: | | | | |
| Mortgage loans receivable | 2,266,609 | - | 2,266,609 | - |
| Capital outlay | 218,242 | - | 218,242 | 10,913 |
| Debt service | 204,908 | - | 204,908 | - |
| Donor restrictions | - | - | - | 1,702,645 |
| Unrestricted | 4,525,821 | 8,816,631 | 13,342,452 | 20,704,943 |
| Total net assets | \$ 17,110,254 | \$ 8,816,631 | \$ 25,926,885 | \$ 73,829,658 |

The accompanying notes to financial statements are an integral part of this statement.

County of Alpena

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2005

| | | Program Revenues | | |
|-------------------------------|---------------|----------------------|------------------------------------|----------------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Functions/Programs: | | | | |
| Primary Government: | | | | |
| Governmental activities | | | | |
| Legislative | \$ 188,750 | \$ - | \$ - | \$ - |
| Judicial | 1,274,425 | 624,827 | 323,751 | - |
| General government | 3,125,937 | 1,958,723 | 41,332 | - |
| Public safety | 3,753,395 | 1,163,468 | 756,108 | 259,847 |
| Public works | 1,667 | - | - | - |
| Health and welfare | 2,241,141 | 220,969 | 569,038 | - |
| Economic development | 375,386 | - | - | - |
| Recreation and culture | 2,104,697 | 1,178,532 | - | 262,636 |
| Interest on long-term debt | 245,754 | - | - | - |
| Total governmental activities | 13,311,152 | 5,146,519 | 1,690,229 | 522,483 |
| Business-type activities: | | | | |
| Delinquent tax payment fund | 46,671 | 405,650 | - | - |
| Total primary government | \$ 13,357,823 | \$ 5,552,169 | \$ 1,690,229 | \$ 522,483 |
| Component Units: | | | | |
| Alpena General Hospital | \$ 87,629,841 | \$ 87,619,404 | \$ 658,020 | \$ - |
| Alpena County Road Commission | 4,627,280 | 901,115 | 5,182,411 | - |
| Alpena County Library | 1,033,502 | 272,125 | 73,242 | - |
| District Health Department #4 | 5,118,216 | 2,078,775 | 2,720,578 | - |
| Circuit Court | 431,287 | - | 440,730 | - |
| Drain Commission | - | - | - | - |
| Family Division - Juvenile | 376,487 | 42,697 | 339,598 | - |
| Friend of the Court | 661,727 | 27,261 | 527,772 | - |
| Friend of the Court P.A. 215 | 32,145 | 34,445 | - | - |
| Total component units | \$ 99,910,485 | \$ 90,975,822 | \$ 9,942,351 | \$ - |

General revenues:

Property taxes

Investment earnings

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning of the year

Net assets - end of the year

| Net (Expense) Revenue and Changes in Net Assets | | | |
|-------------------------------------------------|-----------------------------|---------------|--------------------|
| Primary Government | | | Component Units |
| Governmental Activities | Business-type Activities | Total | |
| \$ (188,750) | \$ - | \$ (188,750) | \$ - |
| (325,847) | - | (325,847) | - |
| (1,125,882) | - | (1,125,882) | - |
| (1,573,972) | - | (1,573,972) | - |
| (1,667) | - | (1,667) | - |
| (1,451,134) | - | (1,451,134) | - |
| (375,386) | - | (375,386) | - |
| (663,529) | - | (663,529) | - |
| (245,754) | - | (245,754) | - |
| (5,951,921) | - | (5,951,921) | - |
| - | 358,979 | 358,979 | - |
| (5,951,921) | 358,979 | (5,592,942) | - |
| - | - | - | 647,583 |
| - | - | - | 1,456,246 |
| - | - | - | (688,135) |
| - | - | - | (318,863) |
| - | - | - | 9,443 |
| - | - | - | - |
| - | - | - | 5,808 |
| - | - | - | (106,694) |
| - | - | - | 2,300 |
| - | - | - | 1,007,688 |
| 7,034,212 | - | 7,034,212 | 1,396,062 |
| 168,453 | 218,565 | 387,018 | 435,608 |
| 596,235 | (596,235) | - | - |
| 7,798,900 | (377,670) | 7,421,230 | 1,831,670 |
| 1,846,979 | (18,691) | 1,828,288 | 2,839,358 |
| 15,263,275 | 8,835,322 | 24,098,597 | 70,990,300 |
| \$ 17,110,254 | \$ 8,816,631 | \$ 25,926,885 | \$ 73,829,658 |

The accompanying notes to financial statements are an integral part of this statement.

County of Alpena

GOVERNMENTAL FUNDS - BALANCE SHEET

December 31, 2005

| | General Fund | Ambulance | Housing Commission |
|--------------------------------------|---------------------|---------------------|-----------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 36,978 | \$ 18,982 | \$ 36,948 |
| Investments | 1,111,746 | 752,388 | - |
| Receivables | | | |
| Taxes | 1,395,996 | 775,642 | - |
| Accounts and interest | 7,361 | 675 | - |
| Mortgage loans | - | - | 2,266,609 |
| Due from other governmental units | 163,059 | - | - |
| Inventories | - | - | - |
| | <u> </u> | <u> </u> | <u> </u> |
| Total assets | <u>\$ 2,715,140</u> | <u>\$ 1,547,687</u> | <u>\$ 2,303,557</u> |
| LIABILITIES AND FUND BALANCES | | | |
| LIABILITIES | | | |
| Accounts payable | \$ 45,549 | \$ 4,196 | \$ 16,922 |
| Accrued payroll and withholdings | 82,283 | - | 1,487 |
| Advances payable | - | - | - |
| Deferred revenue | 1,395,996 | 775,642 | 2,266,609 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities | <u>1,523,828</u> | <u>779,838</u> | <u>2,285,018</u> |
| FUND BALANCES | | | |
| Unreserved | | | |
| Designated | 138,332 | - | - |
| Undesignated | 1,052,980 | 767,849 | 18,539 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total fund balances | <u>1,191,312</u> | <u>767,849</u> | <u>18,539</u> |
| | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities and fund balances | <u>\$ 2,715,140</u> | <u>\$ 1,547,687</u> | <u>\$ 2,303,557</u> |

| Revenue Sharing Reserve | Nonmajor Governmental Funds | Total Governmental Funds |
|-------------------------------|-----------------------------------|--------------------------------|
| \$ 10,785 | \$ 638,960 | \$ 742,653 |
| 405,663 | 746,420 | 3,016,217 |
| 1,273,381 | 1,269,164 | 4,714,183 |
| 101 | 121,232 | 129,369 |
| - | - | 2,266,609 |
| - | 101,145 | 264,204 |
| - | 5,783 | 5,783 |
| <u>\$ 1,689,930</u> | <u>\$ 2,882,704</u> | <u>\$ 11,139,018</u> |
| \$ - | \$ 81,334 | \$ 148,001 |
| - | 26,227 | 109,997 |
| - | 33,000 | 33,000 |
| - | 1,271,691 | 5,709,938 |
| <u>-</u> | <u>1,412,252</u> | <u>6,000,936</u> |
| - | 284,818 | 423,150 |
| <u>1,689,930</u> | <u>1,185,634</u> | <u>4,714,932</u> |
| <u>1,689,930</u> | <u>1,470,452</u> | <u>5,138,082</u> |
| <u>\$ 1,689,930</u> | <u>\$ 2,882,704</u> | <u>\$ 11,139,018</u> |

The accompanying notes to financial statements are an integral part of this statement.

This page left blank.

County of Alpena

**GOVERNMENTAL FUNDS - RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

As of December 31, 2005

| | | | |
|------------------------------------------|--|----|-----------|
| Fund balances - Total governmental funds | | \$ | 5,138,082 |
|------------------------------------------|--|----|-----------|

Amounts reported for governmental activities in the Statement of
Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore not reported in the governmental funds.

| | | | |
|-------------------------------|----|--------------------|------------|
| Governmental capital assets | \$ | 19,043,814 | |
| Less accumulated depreciation | | <u>(5,334,020)</u> | 13,709,794 |

| | | | |
|--------------------------------------------------------------------------------------------------------------|--|--|-----------|
| Deferred revenue in the governmental funds is susceptible to full accrual on the Statement of Net Assets. | | | 2,266,609 |
|--------------------------------------------------------------------------------------------------------------|--|--|-----------|

Long-term liabilities, including bonds payable are not due and
payable in the current period and therefore are not reported
in the governmental funds.

| | | |
|---------------------------------|-----------------|-------------|
| Bonds payable | (3,628,043) | |
| Installment purchase agreements | (187,077) | |
| Compensated absences | (233,165) | |
| Accrued interest payable | <u>(48,105)</u> | (4,096,390) |

Internal service funds are used by management to charge the
costs of certain activities to individual funds. The assets and
liabilities of internal service funds are included in governmental
activities in the Statement of Net Assets.

| | |
|--|---------------|
| | <u>92,159</u> |
|--|---------------|

| | | | |
|---------------------------------------|--|----|--------------------------|
| Net Assets of Governmental Activities | | \$ | <u><u>17,110,254</u></u> |
|---------------------------------------|--|----|--------------------------|

County of Alpena

**GOVERNMENTAL FUNDS -
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

December 31, 2005

| | General Fund | Ambulance | Housing Commission |
|----------------------------------------------------------------------------------------------|---------------------|-------------------|-----------------------|
| REVENUES | | | |
| Taxes | \$ 3,840,852 | \$ 714,496 | \$ - |
| Licenses and permits | 16,754 | - | - |
| Federal grants | 297,042 | - | 113,025 |
| State grants | 809,464 | 17,523 | - |
| Other intergovernmental revenue | - | - | - |
| Charges for service | 1,300,229 | - | 102,188 |
| Fines and forfeitures | 83,370 | - | - |
| Interest and rents | 88,817 | 30,207 | 627 |
| Other revenue | 636,145 | - | - |
| Total revenues | <u>7,072,673</u> | <u>762,226</u> | <u>215,840</u> |
| EXPENDITURES | | | |
| Current | | | |
| Legislative | 188,750 | - | - |
| Judicial | 1,261,659 | - | - |
| General government | 3,019,933 | - | - |
| Public safety | 2,123,529 | 796,740 | - |
| Public works | 892 | - | - |
| Health and welfare | 457,576 | - | 253,658 |
| Community and economic development | 375,386 | - | - |
| Recreation and cultural | - | - | - |
| Debt Service | | | |
| Principal | - | - | - |
| Interest | - | - | - |
| Total expenditures | <u>7,427,725</u> | <u>796,740</u> | <u>253,658</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | <u>(355,052)</u> | <u>(34,514)</u> | <u>(37,818)</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | 1,302,918 | - | - |
| Transfers (out) | (723,588) | - | - |
| | <u>579,330</u> | <u>-</u> | <u>-</u> |
| EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES | 224,278 | (34,514) | (37,818) |
| FUND BALANCES, beginning of the year | <u>967,034</u> | <u>802,363</u> | <u>56,357</u> |
| FUND BALANCES, end of the year | <u>\$ 1,191,312</u> | <u>\$ 767,849</u> | <u>\$ 18,539</u> |

| Revenue Sharing Reserve | Nonmajor Governmental Funds | Total Governmental Funds |
|-------------------------------|-----------------------------------|--------------------------------|
| \$ 1,265,350 | \$ 1,213,514 | \$ 7,034,212 |
| - | 4,702 | 21,456 |
| - | 460,760 | 870,827 |
| - | 451,399 | 1,278,386 |
| - | 656,645 | 656,645 |
| - | 1,647,163 | 3,049,580 |
| - | 3,500 | 86,870 |
| 17,625 | 498,684 | 635,960 |
| - | 227,824 | 863,969 |
| <u>1,282,975</u> | <u>5,164,191</u> | <u>14,497,905</u> |
| - | - | 188,750 |
| - | 12,766 | 1,274,425 |
| - | 25,610 | 3,045,543 |
| - | 929,764 | 3,850,033 |
| - | 775 | 1,667 |
| - | 1,500,129 | 2,211,363 |
| - | - | 375,386 |
| - | 1,963,279 | 1,963,279 |
| - | 842,352 | 842,352 |
| - | 253,107 | 253,107 |
| <u>-</u> | <u>5,527,782</u> | <u>14,005,905</u> |
| <u>1,282,975</u> | <u>(363,591)</u> | <u>492,000</u> |
| - | 742,653 | 2,045,571 |
| <u>(637,027)</u> | <u>(88,721)</u> | <u>(1,449,336)</u> |
| <u>(637,027)</u> | <u>653,932</u> | <u>596,235</u> |
| 645,948 | 290,341 | 1,088,235 |
| <u>1,043,982</u> | <u>1,180,111</u> | <u>4,049,847</u> |
| <u>\$ 1,689,930</u> | <u>\$ 1,470,452</u> | <u>\$ 5,138,082</u> |

The accompanying notes to financial statements are an integral part of this statement.

This page left blank.

County of Alpena

**GOVERNMENTAL FUNDS - RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended December 31, 2005

| | | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|------------------|------------------|
| Net change in fund balances - Total governmental funds | | \$ | 1,088,235 |
| <p>Amounts reported for governmental activities in the Statement of Activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p> | | | |
| Expenditures for capital assets | \$ | 464,277 | |
| Less current year depreciation | | <u>(580,462)</u> | (116,185) |
| <p>The issuance of long-term debt provides current financial resources to governmental funds, which increases liabilities in the Statement of Net Assets. Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the Statement of Net Assets.</p> | | | |
| Bond principal payments | | 697,061 | |
| Installment agreement payments | | <u>145,291</u> | 842,352 |
| <p>Some revenues (costs) reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in governmental funds.</p> | | | |
| Change in deferred revenue | | | 60,153 |
| <p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p> | | | |
| Change in accrued interest payable | | 7,353 | |
| Change in long-term compensated absences | | <u>3,084</u> | 10,437 |
| <p>Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.</p> | | | |
| | | | <u>(38,013)</u> |
| Change in Net Assets of Governmental Activities | | \$ | <u>1,846,979</u> |

The accompanying notes to financial statements are an integral part of this statement.

County of Alpena

PROPRIETARY FUNDS - STATEMENT OF NET ASSETS

December 31, 2005

| | Business-type Activities - Delinquent Tax Payment | Governmental Activities - Internal Service Funds |
|--------------------------------|---------------------------------------------------------------|--------------------------------------------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 5,783,324 | \$ 73,547 |
| Investments | 2,239,414 | 18,595 |
| Receivables | | |
| Taxes | 743,213 | - |
| Accounts and interest | 60,446 | 17 |
| Total assets | <u>8,826,397</u> | <u>92,159</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | - | - |
| Other liabilities and deposits | 9,766 | - |
| Total liabilities | <u>9,766</u> | <u>-</u> |
| NET ASSETS | | |
| Unrestricted | <u>8,816,631</u> | <u>92,159</u> |
| Total net assets | <u>\$ 8,816,631</u> | <u>\$ 92,159</u> |

The accompanying notes to financial statements are an integral part of this statement.

County of Alpena

**PROPRIETARY FUNDS -
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**

Year Ended December 31, 2005

| | Business-type Activities - Delinquent Tax Payment | Governmental Activities - Internal Service Funds |
|-------------------------------------------|---------------------------------------------------------------|--------------------------------------------------------------|
| OPERATING REVENUES | | |
| Charges for services | \$ 216,146 | \$ - |
| Interest on taxes | 189,504 | - |
| Total operating revenues | <u>405,650</u> | <u>-</u> |
| OPERATING EXPENSES | | |
| Contracted services | 46,671 | 41,851 |
| Total operating expenses | <u>46,671</u> | <u>41,851</u> |
| OPERATING INCOME (LOSS) | <u>358,979</u> | <u>(41,851)</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Investment income and rents | 218,565 | 3,838 |
| Total nonoperating revenues (expenses) | <u>218,565</u> | <u>3,838</u> |
| Net income before transfers | <u>577,544</u> | <u>(38,013)</u> |
| TRANSFERS | | |
| Transfers in | - | - |
| Transfers out | (596,235) | - |
| | <u>(596,235)</u> | <u>-</u> |
| Change in net assets | (18,691) | (38,013) |
| NET ASSETS - beginning of the year | <u>8,835,322</u> | <u>130,172</u> |
| NET ASSETS - end of the year | <u>\$ 8,816,631</u> | <u>\$ 92,159</u> |

The accompanying notes to financial statements are an integral part of this statement.

County of Alpena

PROPRIETARY FUNDS - STATEMENT OF CASH FLOWS

Year Ended December 31, 2005

| | Business-type Activities - Delinquent Tax Payment | Governmental Activities - Internal Service Funds |
|---------------------------------------------------------------------------------------------------|---------------------------------------------------------------|--------------------------------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers and users | \$ 2,246,280 | \$ - |
| Cash payments for delinquent taxes | (1,921,483) | - |
| Payments to suppliers | (51,590) | (53,861) |
| Net cash provided (used) by operating activities | 273,207 | (53,861) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Transfers from (to) other funds | (596,235) | - |
| | (596,235) | - |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sales and maturities of investments | 933,800 | - |
| Purchase of investments | - | (513) |
| Interest and dividends received | 218,565 | 3,838 |
| Net cash provided (used) by investing activities | 1,152,365 | 3,325 |
| Net increase (decrease) in cash and cash equivalents | 829,337 | (50,536) |
| CASH AND CASH EQUIVALENTS , beginning of the year | 4,953,987 | 124,083 |
| CASH AND CASH EQUIVALENTS , end of the year | \$ 5,783,324 | \$ 73,547 |
| Reconciliation of operating income to net cash provided (used) by operating activities | | |
| Operating income (loss) | \$ 358,979 | \$ (41,851) |
| Adjustments to reconcile operating income to net cash provided by operating activities | | |
| Increase (decrease) in receivables | (87,532) | (10) |
| Increase (decrease) in accounts payable | - | (12,000) |
| Increase (decrease) in due to governmental units | 1,760 | - |
| Net cash provided (used) by operating activities | \$ 273,207 | \$ (53,861) |

The accompanying notes to financial statements are an integral part of this statement.

County of Alpena

FIDUCIARY FUNDS - STATEMENT OF NET ASSETS

December 31, 2005

| | <u>Agency Funds</u> |
|--------------------------------|----------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 1,169,487 |
| Investments | 236,346 |
| Accounts and interest | <u>56</u> |
| Total assets | <u><u>\$ 1,405,889</u></u> |
| LIABILITIES | |
| Payroll withholdings and other | \$ 281,147 |
| Other liabilities and deposits | <u>1,124,742</u> |
| Total liabilities | <u><u>\$ 1,405,889</u></u> |

The accompanying notes to financial statements are an integral part of this statement.

County of Alpena

COMPONENT UNIT FUNDS - STATEMENT OF NET ASSETS

December 31, 2005

| | Alpena General Hospital | Alpena County Road Commission | Alpena County Library | District Health Department #4 |
|----------------------------------------------------|-------------------------------|-------------------------------------|--------------------------|----------------------------------|
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 11,708,902 | \$ 1,141,095 | \$ 163,143 | \$ 512,247 |
| Investments | 3,036,000 | 1,000,000 | 600,000 | 22,021 |
| Receivables | | | | |
| Taxes | - | - | 622,015 | - |
| Accounts and interest | 8,171,201 | 96,832 | - | 265,256 |
| Due from other governmental units | - | 595,082 | 80,641 | 229,841 |
| Inventories | 2,540,288 | 409,742 | - | - |
| Prepaid and other assets | 3,848,566 | 76,239 | - | 254 |
| Total current assets | <u>29,304,957</u> | <u>3,318,990</u> | <u>1,465,799</u> | <u>1,029,619</u> |
| Non-current assets | | | | |
| Capital assets, net | 35,500,096 | 28,280,624 | 2,119,508 | 108,683 |
| Total Non-current assets | <u>35,500,096</u> | <u>28,280,624</u> | <u>2,119,508</u> | <u>108,683</u> |
| Total assets | <u>\$ 64,805,053</u> | <u>\$ 31,599,614</u> | <u>\$ 3,585,307</u> | <u>\$ 1,138,302</u> |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Accounts payable | \$ 2,536,054 | \$ 70,114 | \$ 13,252 | \$ 134,604 |
| Accrued payroll and withholdings | 2,643,930 | 25,581 | 108,631 | 70,006 |
| Other liabilities and deposits | 1,545,866 | - | - | - |
| Accrued interest payable | 114,985 | - | - | - |
| Advances payable | - | 155,337 | - | 3,134 |
| Unearned revenue | 1,606,182 | - | 911,479 | 265,256 |
| Current portion of compensated absences | 2,482,907 | - | - | - |
| Current portion of long-term debt | 1,664,155 | - | - | - |
| Total Current liabilities | <u>12,594,079</u> | <u>251,032</u> | <u>1,033,362</u> | <u>473,000</u> |
| Noncurrent liabilities | | | | |
| Bonds and loans | 13,581,082 | - | - | - |
| Compensated absences | - | 75,099 | 70,160 | 509,775 |
| Total Noncurrent liabilities | <u>13,581,082</u> | <u>577,163</u> | <u>2,136,884</u> | <u>1,455,775</u> |
| Total liabilities | <u>26,175,161</u> | <u>828,195</u> | <u>3,170,246</u> | <u>1,928,775</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 20,060,825 | 28,280,624 | 2,119,508 | 108,682 |
| Restricted for: | | | | |
| Capital outlay | - | 10,913 | - | - |
| Donor restrictions | 1,702,645 | - | - | - |
| Unrestricted | 16,866,422 | 2,981,946 | 362,277 | 46,845 |
| Total net assets | <u>\$ 38,629,892</u> | <u>\$ 31,273,483</u> | <u>\$ 2,481,785</u> | <u>\$ 155,527</u> |

| Circuit Court | Drain Commission | Family Division - Juvenile | Friend of the Court | Friend of the Court P.A. 215 | Totals |
|---------------|------------------|----------------------------|---------------------|------------------------------|----------------|
| \$ 56,509 | \$ 495 | \$ 53,165 | \$ 37,446 | \$ 156,125 | \$ 13,829,127 |
| - | - | - | - | - | 4,658,021 |
| - | - | - | - | - | 622,015 |
| - | - | - | - | - | 8,533,289 |
| - | - | 6,021 | 175,056 | - | 1,086,641 |
| - | - | - | - | - | 2,950,030 |
| - | - | - | - | - | 3,925,060 |
| 56,509 | 495 | 59,186 | 212,502 | 156,125 | 35,604,183 |
| 299,159 | - | 243,200 | 299,159 | - | 66,850,428 |
| 299,159 | - | 243,200 | 299,159 | - | 66,850,428 |
| \$ 355,668 | \$ 495 | \$ 302,386 | \$ 511,661 | \$ 156,125 | \$ 102,454,611 |
| \$ 2,161 | \$ - | \$ 2,589 | \$ 1,650 | \$ - | \$ 2,760,424 |
| 8,359 | - | 7,375 | 15,230 | - | 2,879,112 |
| - | - | - | - | - | 1,545,866 |
| - | - | - | - | - | 114,985 |
| - | - | - | - | - | 158,471 |
| - | - | - | - | - | 2,782,917 |
| - | - | - | - | - | 2,482,907 |
| - | - | - | - | - | 1,664,155 |
| 10,520 | - | 9,964 | 16,880 | - | 14,388,837 |
| - | - | - | - | - | 13,581,082 |
| - | - | - | - | - | 655,034 |
| 21,040 | - | 19,928 | 33,760 | - | 14,236,116 |
| 31,560 | - | 29,892 | 50,640 | - | 28,624,953 |
| 299,159 | - | 243,200 | 299,159 | - | 51,411,157 |
| - | - | - | - | - | 10,913 |
| - | - | - | - | - | 1,702,645 |
| 45,989 | 495 | 49,222 | 195,622 | 156,125 | 20,704,943 |
| \$ 345,148 | \$ 495 | \$ 292,422 | \$ 494,781 | \$ 156,125 | \$ 73,829,658 |

The accompanying notes to financial statements are an integral part of this statement.

County of Alpena

COMPONENT UNIT FUNDS - STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2005

| | | Program Revenues | | |
|-----------------------------------|----------------------|----------------------|---------------------|---------------|
| | | Charges for | Operating | Capital |
| | Expenses | Services | Grants and | Grants and |
| | | | Contributions | Contributions |
| <u>Functions/Programs:</u> | | | | |
| Alpena General Hospital | \$ 87,629,841 | \$ 87,619,404 | \$ 658,020 | \$ - |
| Alpena County Road Commission | 4,627,280 | 901,115 | 5,182,411 | - |
| Alpena County Library | 1,033,502 | 272,125 | 73,242 | - |
| District Health Department #4 | 5,118,216 | 2,078,775 | 2,720,578 | - |
| Circuit Court | 431,287 | - | 440,730 | - |
| Drain Commission | - | - | - | - |
| Family Division - Juvenile | 376,487 | 42,697 | 339,598 | - |
| Friend of the Court | 661,727 | 27,261 | 527,772 | - |
| Friend of the Court P.A. 215 | 32,145 | 34,445 | - | - |
| Total component units | <u>\$ 99,910,485</u> | <u>\$ 90,975,822</u> | <u>\$ 9,942,351</u> | <u>\$ -</u> |

General revenues:

Property taxes

Investment earnings

Total general revenues and transfers

Change in net assets

Net assets - beginning of the year

Net assets - end of the year

| Net (Expense) Revenues and Changes in Net Assets | |
|-----------------------------------------------------------|------------|
| <hr/> | |
| \$ | 647,583 |
| | 1,456,246 |
| | (688,135) |
| | (318,863) |
| | 9,443 |
| | - |
| | 5,808 |
| | (106,694) |
| | 2,300 |
| <hr/> | |
| | 1,007,688 |
| <hr/> | |
| | 1,396,062 |
| | 435,608 |
| <hr/> | |
| | 1,831,670 |
| <hr/> | |
| | 2,839,358 |
| | 70,990,300 |
| <hr/> | |
| \$ | 73,829,658 |
| <hr/> | |

The accompanying notes to financial statements are an integral part of this statement.

County of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

The accounting policies of the County of Alpena, Michigan conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the County:

A. Reporting Entity.

Description of County Operations. The County of Alpena, Michigan, was incorporated March 8, 1843 and covers an area of approximately 640 square miles, with the county seat located in the City of Alpena. The County operates under an elected Board of Commissioners (8 members) and provides services to its 31,314 residents (2000 census) in many areas including law enforcement, administration of justice, community enrichment and development and human services.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government.

Blended component unit. A blended component unit is a legally separate entity from the County, but is so intertwined with the County that it is, in substance, the same as the County of Alpena. It is reported as a part of the County and blended into the appropriate fund types.

Building Authority. The County of Alpena Building Authority is governed by a five member board appointed by the County's governing body. Although it is legally separate from the County, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the County's public buildings.

Discretely Presented Component Units. The component units column in the government-wide financial statements include the financial data of the County's component units. They are reported in a separate column to emphasize that they are either a multi-county agency or operate independently from the County. The governing bodies of these component units are appointed by the County Board of Commissioners.

The following component units are included as a part of the County's annual financial statements since all of these agencies provide services to more than one county, with Alpena County being the largest. As a result the agency is required to deposit all funds with the County Treasurer. The discretely presented component units are entities that are legally separate from the County, but for which the County is financially accountable, or its relationship with the County is such that exclusion would cause the County's financial statements to be misleading or incomplete.

Circuit Court. This fund is established to account for the activities of a two county Circuit Court. Each county contributes an amount based on their relative population to the total population of the district along with sending representatives to sit on Circuit Court board.

District Health Department #4. This fund is used to account for health services provided to a four county area. Each county sends representatives to sit on a separate health board that runs the operations of the health department.

Drain Commission. This fund is established to account for the activities of the Alpena County Drain Commissioner. The office approves drainage in new developments, subdivision and maintains lake levels.

County of Alpena

NOTES TO FINANCIAL STATEMENTS

Family Division-Juvenile. This fund is used to account for the activities of a two county Family Division - Juvenile Office. Each County contributes based on their representative share of the cases handled by the office.

Friend of the Court. This fund is established to account for the activities of a two county Friend of the Court office. Each county contributes based on their representative share of the cases handled by the office.

Friend of the Court P.A. 215. This fund is used to account for the 215 funds received for the two county area that the Friend of the Court office serves.

The following component units are included as a part of the County's annual financial statements since all debt and taxes levied must be approved by the County.

Alpena County Library. This fund is used to account for the operation of the Library. The Library has a separate board that oversees the day to day operations. The County levies property taxes of .75 mill for operations.

Alpena General Hospital. This fund is used to account for a locally owned hospital that serves the residents of Northeast Michigan. The Hospital has a separate board of governors that handle the day to day operations. The County levies property taxes of 1.0 mill for capital projects.

Alpena County Road Commission. This fund is used to account for the operation of the County Road Commission. The Commission has its own separate elected board that oversees the day to day operations and sets policies and procedures.

Additional financial information of the individual component units can be obtained from their respective administrative offices or can be viewed at the County Treasurer's office at the courthouse.

Administrative Offices

Circuit Court
Alpena County Courthouse
Alpena, MI 49707

District Health Department No. 4
1521 West Chisholm Street
Alpena, MI 49707

Drain Commission
Alpena County Courthouse
Alpena, MI 49707

Family Division – Juvenile
Alpena County Courthouse
Alpena, MI 49707

Friend of the Court
Alpena County Courthouse
Alpena, MI 49707

Alpena County Library
211 N. First Street
Alpena, MI 49707

Alpena County Road Commission
1400 Bagley
Alpena, MI 49707

Alpena General Hospital
Office of the Controller
1501 W. Chisholm
Alpena, MI 49707

County of Alpena

NOTES TO FINANCIAL STATEMENTS

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The government reports the following major governmental funds:

General Fund. This fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Ambulance Fund. This fund is used to account for property taxes collected for ambulance services.

Housing Commission. This fund accounts for the operations of the Alpena County Home Improvement Program. Financing is provided by federal and state grants, interest, and program income.

County of Alpena

NOTES TO FINANCIAL STATEMENTS

Revenue Sharing Reserve. This fund is mandated by the State of Michigan and accounts for property tax collections to serve as a substitute for state revenue sharing payments.

The government reports the following major proprietary funds:

Delinquent Property Tax Revolving Fund. This fund is used to account for the payment to each local unit of government within the County of Alpena the delinquent real property taxes outstanding as of March 1, of each year. This fund also is used to account for the collection of those delinquent taxes along with penalties and interest.

Internal Service Fund. This fund is used to record the financing of goods and services provided to other funds of the County on a cost reimbursement basis for building and grounds maintenance.

Additionally, the County of Alpena reports the following fund types:

Special Revenue Funds. These funds are used to account for specific governmental revenues requiring separate accounting for legal, regulatory or administrative purposes.

Debt Service Funds. These funds are used to record the funding and payment of the principal and interest on the long-term debt of the County.

Capital Projects Funds. These funds are used to account for the acquisition or construction of major capital facilities.

Agency Funds. These funds are used to account for assets held in trust or as an agent for others.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned. Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D. Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents. The County maintains and controls a cash and investment pool in which the primary government and component unit's share. Each fund's or component unit's portion of a pool is displayed on its respective balance sheet as "Cash and cash equivalents". In addition, Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

County of Alpena

NOTES TO FINANCIAL STATEMENTS

Investments. Consist of certificates of deposit, governmental money market funds, and commercial paper with original maturities of greater than 90 days. Investments are stated at fair value which is determined using selective bases.

Receivables. Consist of amounts due from property taxes, accounts receivable related to charges for services, interest receivable, and mortgage loans issued by the Home Improvement Program owed to the County at year end.

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Interfund Receivables and Payables. In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Inventories and Prepaid Items. Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets. Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

- Land Improvements 20 to 25 years
- Buildings 30 to 50 years
- Building Improvements 15 to 30 years
- Vehicles 3 to 5 years
- Office and Computer Equipment 3 to 7 years
- Infrastructure - Roads 5 to 30 years
- Infrastructure - Bridges 12 to 50 years
- Infrastructure - Traffic Signals 15 years

Vacation, Sick Leave and Other Compensated Absences. After one year of employment, County employees are granted vacation leave in varying amounts based on length of service. Vacation pay is fully vested when earned; upon termination, employees are paid accumulated vacation at their regular pay rates to a limit of 100% of their current annual earned vacation. All full-time and regular part-time employees in accordance with County contracts negotiated with the various employee groups shall be entitled to paid time off (PTO). 176 PTO hours for 40 hour per week full-time employees and 154 PTO hours for 35 hour per week full-time employees and pro-rated for part-time employees is the maximum hours that may be accumulated.

These policies are followed by all funds and departments of the County except the Road Commission, Alpena General Hospital, District Health Department No. 4, and Multi-County Courts, which have established separate policies.

County of Alpena

NOTES TO FINANCIAL STATEMENTS

The Multi-County Circuit Courts have adopted a medical leave policy where employees can accumulate up to 120 days of medical leave. Upon retirement, employees shall be paid for all unused accumulated medical leave. Vacation leave is granted in varying amounts based on length of service and is fully vested when earned. Vacation time does not accumulate to future periods except employees can carry-over a maximum of 10 unused vacation days to the following year.

The District Health Department No. 4 has adopted a medical leave policy where employees can accumulate up to 100 days of medical leave. Upon retirement, employees shall be paid for all unused accumulated medical leave. Vacation leave is granted in varying amounts based on length of service and is fully vested when earned. Vacation time can accumulate up to a maximum of 30 days. Upon termination, the employee shall receive any current unused vacation time.

Additional disclosures for the Road Commission and Alpena General Hospital policies regarding their compensated absences can be found by obtaining a copy of each respective component units/separate audit.

Long-Term Obligations. In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Encumbrances. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation is not employed by the County. Commitments outstanding at year end are charged against the subsequent year's appropriation once received and approved.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimated.

Federal Programs. Federal grants are accounted for in the funds to which the programs pertain. The County has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports will be issued under separate cover as supplementary information to the financial statements.

Reporting Periods. The reporting period for all funds and account groups of the County is the year ended December 31, 2005, except Alpena General Hospital a component unit activity, where the reporting period is the year ended June 30, 2005.

Reclassifications. Certain items reported in the 2004 financial statements have been reclassified to conform with the presentation for the current year.

County of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 2--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY.

Budgetary Information. Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except the General Fund which prepared its budget using the cash basis of accounting. Annual budgets are prepared and adopted for all required governmental fund types.

Budgets and Budgetary Accounting. Prior to adoption of the budgets, County departments prepare and submit their proposed operating budgets commencing the following January 1. A public hearing is conducted to obtain taxpayer comments. Prior to December 31, the budget is adopted by the Board of Commissioners. Budgeted amounts are as originally adopted, or as amended by the Board of Commissioners during the year. Individual amendments were not material in relation to the original appropriations which were amended. Unused appropriations at December 31 are not carried forward to the following year.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the departmental level. The County of Alpena's budgeted expenditures and actual expenditures for major funds budgeted have been shown on a functional basis in the required supplemental information. The General Fund Budgetary Comparison Schedule of Revenues and Expenditures is presented at the departmental level on a cash basis for the benefit of management. Since accounting principles applied for purposes of developing data on a budgetary basis differ from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of the differences is shown.

Excess of Expenditures Over Appropriations in Budgeted Funds. The Uniform Budgeting and Accounting Act, PA 2 of 1968, as amended, (MCL 141.421 et seq.), provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated.

During the year, the County of Alpena did not incur expenditures which were in excess of the amounts appropriated.

Accumulated Fund Deficits. The County of Alpena did not have any accumulated fund balance/retained earnings deficits in any individual funds at December 31, 2005.

NOTE 3 - DEPOSITS AND INVESTMENTS.

The County utilizes various pooled cash accounts and investments for approximately 45 funds. The County's pooled cash accounts consist of common checking and related sweep accounts.

The County's pooled cash accounts and investments are utilized by the General Fund, Special Revenue Funds, Capital Project Funds, Debt Service Funds, Internal Service Funds, Trust and Agency Funds, and the Component Unit funds. Each fund's portion of these pooled accounts is included in the cash and cash equivalents caption on the applicable balance sheet or statement of net assets.

Component Unit funds of the County utilize separate savings and interest bearing checking accounts and are recorded as imprest cash in the financial records of the County.

County of Alpena

NOTES TO FINANCIAL STATEMENTS

A reconciliation of cash and investments as reflected in the basic financial statements to the County's deposits and investments is as follows:

| | Statement of Net Assets | | | |
|---------------------------|-------------------------|---------------------|---------------------|---------------------|
| | Component | | | Total |
| | Primary Government | Fiduciary Funds | Units | |
| Cash and cash equivalents | \$ 1,113,216 | \$ 1,169,487 | \$13,829,127 | \$16,111,830 |
| Investments | 10,760,534 | 236,346 | 4,658,021 | 15,654,901 |
| | <u>\$11,873,750</u> | <u>\$ 1,405,833</u> | <u>\$18,487,148</u> | <u>\$31,766,731</u> |

The breakdown between deposits and investments is as follows:

| | Component | | | |
|---------------------------|---------------------|---------------------|----------------------|---------------------|
| | Primary Government | Fiduciary Funds | Units | Total |
| Carrying Amounts | | | | |
| Cash and cash equivalents | | | | |
| Bank deposits | | | | |
| Pooled checking | \$ 990,618 | \$ 1,086,630 | \$ 2,015,182 | \$ 4,092,430 |
| Checking and savings | 96,548 | 82,857 | 11,800,265 | 11,979,670 |
| | 1,087,166 | 1,169,487 | 13,815,447 | 16,072,100 |
| Cash on hand and imprest | 26,050 | - | 13,680 | 39,730 |
| | <u>1,113,216</u> | <u>1,169,487</u> | <u>13,829,127</u> | <u>16,111,830</u> |
| Investments | | | | |
| Certificates of deposit | 7,730,174 | 221,234 | 1,622,021 | 9,573,429 |
| Commercial paper | - | - | 2,500,000 | 2,500,000 |
| Money market accounts | 3,030,360 | 15,112 | 536,000 | 3,581,472 |
| | <u>10,760,534</u> | <u>236,346</u> | <u>4,658,021</u> | <u>15,654,901</u> |
| | <u>\$11,873,750</u> | <u>\$ 1,405,833</u> | <u>\$ 18,487,148</u> | <u>\$31,766,731</u> |

County of Alpena

NOTES TO FINANCIAL STATEMENTS

| | Fair Value | Investment Maturities (In days) | | | S & P Rating |
|--------------------------|---------------------|---------------------------------|--------------------|--------------------|-----------------|
| | | 0-90 | 91-120 | 121-365 | |
| Certificates of deposit | \$ 9,573,429 | \$5,132,386 | \$2,868,263 | \$1,572,780 | N/A |
| Commercial paper | 2,500,000 | 2,500,000 | - | - | A-1 + |
| Money market accounts | 3,581,472 | 3,581,472 | - | - | N/A |
| | <u>\$15,654,901</u> | <u>\$11,213,858</u> | <u>\$2,868,263</u> | <u>\$1,572,780</u> | |

Statutory Authority. State statutes authorize the County to invest in:

- a. Bond, securities, other direct obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97. The County's investment policy allows for all of these types of investments.

The County's deposits and investment policy are in accordance with statutory authority.

Investment and deposit risk. The County's cash and investments are subject to several types of risk, which are examined in more detail below.

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The County's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year end.

County of Alpena

NOTES TO FINANCIAL STATEMENTS

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified above. The County's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment type are identified above for investments held at year end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned. State law does not require and the County does not have a policy for deposit custodial credit risk. At December 31, 2005, the carrying amount of the County's bank deposits was \$16,072,100, with a corresponding bank balance of \$16,240,189. Of the County's bank balances, \$11,340,109 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require a policy for investment custodial credit risk. However, the County's investment policy states the County Treasurer shall diversify his/her investments by institution, in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. Of the above money market account balances of \$3,581,472 the County has a custodial credit risk exposure of \$2,178,884 because it was uninsured. Of the above certificate of deposit balances of \$9,573,429 the County has a custodial credit risk of \$9,073,429 because it was uninsured.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified above. The County's investment policy states that the County Treasurer shall diversify his/her investments by security type, in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. All investments held at year end are reported above.

NOTE 4--RECEIVABLES.

Receivables for the primary government and component units at December 31, 2005 are as follows:

| | Primary Government | | | Component Units |
|------------------------------------------------------|----------------------------|-----------------------------|---------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total | |
| Receivables (net of allowance for uncollectibles) | \$ 119,858 | \$ - | \$ 119,858 | \$ 8,533,289 |
| Interest | 9,528 | - | 9,528 | - |
| Mortgage loans | 2,266,609 | - | 2,266,609 | - |
| Taxes receivable | 4,714,183 | 803,659 | 5,517,842 | 622,015 |
| Due from governmental units | <u>264,204</u> | <u>-</u> | <u>264,204</u> | <u>1,086,641</u> |
| Total | <u>\$ 7,374,382</u> | <u>\$ 803,659</u> | <u>\$ 8,178,041</u> | <u>\$10,241,945</u> |

County of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 5--INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS.

Permanent reallocation of resources between funds of the reporting entity is classified as inter-fund transfers. For the purpose of the statement of activities, all inter-fund transfers between individual governmental and internal service funds, enterprise funds, and component units have been eliminated.

The County of Alpena did not have any balances outstanding of inter-fund receivables and payables as of December 31, 2005.

Inter-fund transfers for the year ended as of December 31, 2005 are as follows:

| | Transfers In | Transfers (Out) |
|---------------------------|---------------------|-----------------------|
| General Fund | \$ 1,302,918 | |
| Revenue sharing reserve | | \$ (637,027) |
| Child Care Probate | | (26,000) |
| DHS | | (15,682) |
| Older persons | | (27,974) |
| Delinquent tax payment | | (596,235) |
| Airport | 133,960 | |
| Child Care DHS | 2,000 | |
| Child Care Probate | 360,544 | |
| DHS | 24,000 | |
| Equipment and replacement | 160,000 | |
| Law Library | 13,270 | |
| Plaza pool | 29,814 | |
| General Fund | | (723,588) |
| Child Care DHS | 600 | |
| Plaza pool | 18,465 | |
| Child Care Probate | | (600) |
| Older persons | | (18,465) |
| | <u>\$ 2,045,571</u> | <u>\$ (2,045,571)</u> |

Inter-fund transfers include transfer of unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds, in accordance with budgetary authorizations; and, transfer of revenues from the fund that is required to collect them to the fund that is required or allowed to expend them. In addition, the Revenue Sharing Reserve Fund has transferred the allowable spending amount specified by the State for the State revenue sharing fund in compliance with Public Act 357 of 2004.

County of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 6--CAPITAL ASSETS.

Primary Government

Capital asset activity of the primary government for the year ended December 31, 2005 is as follows:

| | Balance 12/31/04 | Additions | Retirements | Balance 12/31/05 |
|------------------------------------|---------------------|---------------------|-------------|---------------------|
| Governmental activities: | | | | |
| Capital assets, not depreciated: | | | | |
| Land | \$ 172,984 | \$ - | \$ - | \$ 172,984 |
| | <u>172,984</u> | <u>-</u> | <u>-</u> | <u>172,984</u> |
| Capital assets, being depreciated: | | | | |
| Land improvements | 2,127,711 | - | - | 2,127,711 |
| Buildings and improvements | 14,348,195 | 10,176 | - | 14,358,371 |
| Office and computer equipment | 550,335 | 191,465 | - | 741,800 |
| Vehicles | 1,380,312 | 262,636 | - | 1,642,948 |
| | <u>18,406,553</u> | <u>464,277</u> | <u>-</u> | <u>18,870,830</u> |
| Less accumulated depreciation: | | | | |
| Land improvements | (460,463) | (63,796) | - | (524,259) |
| Buildings and improvements | (3,537,035) | (374,088) | - | (3,911,123) |
| Office and computer equipment | (178,536) | (72,152) | - | (250,688) |
| Vehicles | (577,524) | (70,426) | - | (647,950) |
| | <u>(4,753,558)</u> | <u>(580,462)</u> | <u>-</u> | <u>(5,334,020)</u> |
| Governmental activities assets | <u>\$13,825,979</u> | <u>\$ (116,185)</u> | <u>\$ -</u> | <u>\$13,709,794</u> |

Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|--------------------------|-------------------|
| Governmental activities: | |
| General government | \$ 41,627 |
| Public safety | 84,541 |
| Health and welfare | 29,778 |
| Recreation and culture | 424,516 |
| | <u>\$ 580,462</u> |

County of Alpena

NOTES TO FINANCIAL STATEMENTS

Discretely Presented Component Units

| | Balance 12/31/04 | Additions | Retirements | Balance 12/31/05 |
|------------------------------------|---------------------|--------------------|-------------|---------------------|
| Circuit Court: | | | | |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | \$ 687,869 | \$ - | \$ - | \$ 687,869 |
| | <u>687,869</u> | <u>-</u> | <u>-</u> | <u>687,869</u> |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | (373,153) | (15,557) | - | (388,710) |
| | <u>(373,153)</u> | <u>(15,557)</u> | <u>-</u> | <u>(388,710)</u> |
| Net component unit assets | <u>\$ 314,716</u> | <u>\$ (15,557)</u> | <u>\$ -</u> | <u>\$ 299,159</u> |

Depreciation expense was charged to functions/programs of the Circuit Court as follows:

Governmental activities:

Judicial \$ 15,557

| | Balance 12/31/04 | Additions | Retirements | Balance 12/31/05 |
|------------------------------------|---------------------|-------------------|-------------|---------------------|
| Family Division - Juvenile: | | | | |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | \$ 260,000 | \$ - | \$ - | \$ 260,000 |
| Office and computer equipment | 20,000 | | | 20,000 |
| | <u>280,000</u> | <u>-</u> | <u>-</u> | <u>280,000</u> |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | (15,600) | (5,200) | - | (20,800) |
| Office and computer equipment | (15,000) | (1,000) | | (16,000) |
| | <u>(30,600)</u> | <u>(6,200)</u> | <u>-</u> | <u>(36,800)</u> |
| Net component unit assets | <u>\$ 249,400</u> | <u>\$ (6,200)</u> | <u>\$ -</u> | <u>\$ 243,200</u> |

Depreciation expense was charged to functions/programs of the Family Division - Juvenile as follows:

Governmental activities:

Judicial \$ 6,200

County of Alpena

NOTES TO FINANCIAL STATEMENTS

Discretely Presented Component Units

| | Balance 12/31/04 | Additions | Retirements | Balance 12/31/05 |
|------------------------------------|---------------------|--------------------|-------------|---------------------|
| Friend of the Court: | | | | |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | \$ 687,869 | \$ - | \$ - | \$ 687,869 |
| | <u>687,869</u> | <u>-</u> | <u>-</u> | <u>687,869</u> |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | (373,153) | (15,557) | - | (388,710) |
| | <u>(373,153)</u> | <u>(15,557)</u> | <u>-</u> | <u>(388,710)</u> |
| Net component unit assets | <u>\$ 314,716</u> | <u>\$ (15,557)</u> | <u>\$ -</u> | <u>\$ 299,159</u> |

Depreciation expense was charged to functions/programs of the Friend of the Court as follows:

Governmental activities:

Judicial \$ 15,557

| | Balance 12/31/04 | Additions | Retirements | Balance 12/31/05 |
|------------------------------------|---------------------|---------------------|-------------|---------------------|
| Alpena County Library: | | | | |
| Capital assets, being depreciated: | | | | |
| Land and improvements | \$ 76,000 | \$ - | \$ - | \$ 76,000 |
| Buildings and improvements | 2,000,045 | 7,974 | - | 2,008,019 |
| Books and audio equipment | 896,198 | 80,874 | - | 977,072 |
| | <u>2,972,243</u> | <u>88,848</u> | <u>-</u> | <u>3,061,091</u> |
| Less accumulated depreciation: | | | | |
| Land and improvements | - | - | - | \$ - |
| Buildings and improvements | (690,104) | (55,456) | - | (745,560) |
| Books and audio equipment | - | (196,023) | - | (196,023) |
| | <u>(690,104)</u> | <u>(251,479)</u> | <u>-</u> | <u>(941,583)</u> |
| Net component unit assets | <u>\$ 2,282,139</u> | <u>\$ (162,631)</u> | <u>\$ -</u> | <u>\$ 2,119,508</u> |

Depreciation expense was charged to functions/programs of the Alpena County Library as follows:

Governmental activities:

Recreation and culture \$ 251,479

County of Alpena

NOTES TO FINANCIAL STATEMENTS

Discretely Presented Component Units

| | Balance 12/31/04 | Additions | Retirements | Balance 12/31/05 |
|---------------------------------------|---------------------|---------------------|--------------------|---------------------|
| Alpena County Road Commission: | | | | |
| Capital assets, not depreciated: | | | | |
| Land | \$ 23,080 | \$ - | \$ (2,399) | \$ 20,681 |
| | <u>23,080</u> | <u>-</u> | <u>(2,399)</u> | <u>20,681</u> |
| Capital assets, being depreciated: | | | | |
| Land improvements | 9,362,327 | 723,796 | - | 10,086,123 |
| Buildings and improvements | 1,460,687 | 66,371 | - | 1,527,058 |
| Machinery and equipment | 4,310,569 | 529,196 | (416,276) | 4,423,489 |
| Office and computer equipment | 131,357 | 3,811 | (17) | 135,151 |
| Infrastructure - roads | 19,486,179 | 2,816,588 | (369,662) | 21,933,105 |
| Infrastructure - bridges | 3,938,889 | 466,592 | (14,032) | 4,391,449 |
| Infrastructure - traffic signals | 24,831 | - | - | 24,831 |
| Depletable assets | 146,235 | - | 2,399 | 148,634 |
| | <u>38,861,074</u> | <u>4,606,354</u> | <u>(797,588)</u> | <u>42,669,840</u> |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | (622,679) | (31,583) | - | (654,262) |
| Machinery and equipment | (3,525,377) | (343,094) | 396,527 | (3,471,944) |
| Office and computer equipment | (110,160) | (6,018) | - | (116,178) |
| Infrastructure - roads | (7,768,207) | (1,178,994) | 369,662 | (8,577,539) |
| Infrastructure - bridges | (1,344,497) | (90,058) | 14,032 | (1,420,523) |
| Infrastructure - traffic signals | (19,161) | (1,656) | - | (20,817) |
| Depletable assets | (146,456) | - | (2,178) | (148,634) |
| | <u>(13,536,537)</u> | <u>(1,651,403)</u> | <u>778,043</u> | <u>(14,409,897)</u> |
| Net component unit assets | <u>\$25,397,617</u> | <u>\$ 2,954,951</u> | <u>\$ (21,944)</u> | <u>\$28,280,624</u> |

Depreciation expense was charged to functions/programs of the Road Commission as follows:

Governmental activities:

Public works \$ 1,651,403

County of Alpena

NOTES TO FINANCIAL STATEMENTS

Discretely Presented Component Units

| | Balance 12/31/04 | Additions | Retirements | Balance 12/31/05 |
|------------------------------------|---------------------|-----------------------|--------------------|---------------------|
| Alpena General Hospital: | | | | |
| Capital assets, being depreciated: | | | | |
| Land and improvements | \$ 2,332,485 | \$ 19,445 | \$ - | \$ 2,351,930 |
| Buildings and improvements | 48,810,927 | 311,914 | - | 49,122,841 |
| Office and computer equipment | 29,657,203 | 2,537,185 | (1,075,997) | 31,118,391 |
| | <u>80,800,615</u> | <u>2,868,544</u> | <u>(1,075,997)</u> | <u>82,593,162</u> |
| Less accumulated depreciation: | | | | |
| Land and improvements | (987,376) | (96,391) | - | (1,083,767) |
| Buildings and improvements | (25,476,316) | (1,458,356) | - | (26,934,672) |
| Office and computer equipment | (16,876,740) | (3,213,029) | 1,015,142 | (20,089,769) |
| | <u>(43,340,432)</u> | <u>(4,767,776)</u> | <u>1,015,142</u> | <u>(48,108,208)</u> |
| Net component unit assets | <u>\$37,460,183</u> | <u>\$ (1,899,232)</u> | <u>\$ (60,855)</u> | <u>\$35,500,096</u> |

Depreciation expense was charged to functions/programs of the Alpena General Hospital as follows:

Governmental activities:

Health and human services \$ 4,767,776

| | Balance 12/31/04 | Additions | Retirements | Balance 12/31/05 |
|------------------------------------|---------------------|-------------------|-----------------|---------------------|
| District Health: | | | | |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | \$ 143,920 | \$ 32,876 | \$ - | \$ 176,796 |
| Office and computer equipment | 315,621 | - | (52,565) | 263,056 |
| Vehicles | 104,824 | - | - | 104,824 |
| | <u>564,365</u> | <u>32,876</u> | <u>(52,565)</u> | <u>544,676</u> |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | (85,598) | (15,159) | - | (100,757) |
| Office and computer equipment | (271,580) | (16,639) | 52,565 | (235,654) |
| Vehicles | (89,100) | (10,482) | - | (99,582) |
| | <u>(446,278)</u> | <u>(42,280)</u> | <u>52,565</u> | <u>(435,993)</u> |
| Net component unit assets | <u>\$ 118,087</u> | <u>\$ (9,404)</u> | <u>\$ -</u> | <u>\$ 108,683</u> |

Depreciation expense was charged to functions/programs of the District Health as follows:

Governmental activities:

Health and human services \$ 42,280

County of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 7-- LONG-TERM DEBT.

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government.

Bond and contractual obligation activity can be summarized as follows:

| | Balances, Jan 01, 05 | Additions | Deductions | Balances, Dec 31, 05 | Due Within One Year |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|-----------|--------------|-------------------------|------------------------|
| PRIMARY GOVERNMENT | | | | | |
| 1994 Alpena County sanitary sewage unlimited tax refunding bonds (contractual obligation): Amount of issue - \$2,705,000 Maturing through 2008 Interest rate range 5.0% Principal maturity range \$175,000- | | | | | |
| \$195,000 | \$ 735,000 | \$ - | \$ (175,000) | \$ 560,000 | \$ 175,000 |
| 1989 Alpena County General Obligation Refunding Bonds Amount of issue - \$3,005,000 Maturing through 2007 Interest rate ranges 7.45%-7.50% Principal maturity range \$65,000- | | | | | |
| \$75,000 | 260,000 | - | (120,000) | 140,000 | 75,000 |
| Alpena County Water Supply System #5 Bonds Amount of issue - \$870,000 Maturing through 2009 Interest rate range 7.50% Principal maturity range \$20,000- | | | | | |
| \$50,000 | 170,000 | - | (50,000) | 120,000 | 50,000 |
| Alpena County Building Authority Bonds, Series 1998 Amount of issue - \$1,360,000 Maturing through 2012 Interest rate ranges 4.75%-4.95% Principal maturity range \$105,000- | | | | | |
| \$140,000 | 945,000 | - | (100,000) | 845,000 | 105,000 |
| Alpena County Building Authority Bonds, Series 1999 Amount of issue - \$840,000 Maturing through 2015 Interest rate ranges 4.70%-5.60% Principal maturity range \$40,000- | | | | | |
| \$80,000 | 585,000 | - | (65,000) | 520,000 | 65,000 |

County of Alpena

NOTES TO FINANCIAL STATEMENTS

| | Balances, Jan 01, 05 | Additions | Deductions | Balances, Dec 31, 05 | Due Within One Year |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|-------------------|----------------------|-------------------------|------------------------|
| Alpena County Building Authority Bonds, Series 2001 Amount of issue - \$995,000 Maturing through 2016 Interest rate ranges 4.00%-5.00% Principal maturity range \$55,000- \$90,000 | \$ 845,000 | \$ - | \$ (55,000) | \$ 790,000 | \$ 55,000 |
| Alpena County Building Authority Bonds, Series 2002 Amount of issue - \$960,000 Maturing through 2011 Interest rate ranges 3.60%-4.50% Principal maturity range \$60,000- \$110,000 | 595,000 | - | (110,000) | 485,000 | 110,000 |
| Alpena County Building Authority Commercial bank loan Amount of issue - \$135,000 Maturing through 2010 Interest rate range 4.40% Principal maturity range \$5,600- \$17,800 | 87,547 | - | (15,008) | 72,539 | 15,668 |
| Alpena County Building Authority Intergovernmental Loans Amount of issue - \$112,500 Interest rate range 0.00% | 102,557 | - | (7,053) | 95,504 | 95,504 |
| Installment Purchase Agreements | | | | | |
| Ford Motor Credit | 23,908 | - | (23,908) | - | - |
| FSG Software | 14,237 | - | (7,119) | 7,118 | 7,118 |
| Government Leasing Co. | 26,010 | - | (16,977) | 9,033 | 9,033 |
| Government Leasing Co. | 13,976 | - | (13,976) | - | - |
| Government Leasing Co. | - | - | - | - | - |
| Government Leasing Co. | 11,951 | - | (7,814) | 4,137 | 4,137 |
| Government Leasing Co. | 25,400 | - | (14,115) | 11,285 | 11,285 |
| Team Software Group, Inc. | 50,218 | - | (15,452) | 34,766 | 15,452 |
| Verizon Credit, Inc. | 65,917 | - | (17,004) | 48,913 | 18,047 |
| Verizon Credit, Inc. | 3,212 | - | (3,212) | - | - |
| Verizon Credit, Inc. | 13,842 | - | (3,312) | 10,530 | 3,515 |
| Verizon Credit, Inc. | 83,697 | - | (22,402) | 61,295 | 23,577 |
| | 4,657,472 | - | (842,352) | 3,815,120 | 838,336 |
| Compensated absences | 236,249 | 233,165 | (236,249) | 233,165 | - |
| Total primary government | <u>\$ 4,893,721</u> | <u>\$ 233,165</u> | <u>\$(1,078,601)</u> | <u>\$ 4,048,285</u> | <u>\$ 838,336</u> |

County of Alpena

NOTES TO FINANCIAL STATEMENTS

| | Balances, Jan 01, 05 | Additions | Deductions | Balances, Dec 31, 05 | Due Within One Year |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|---------------------|----------------------|-------------------------|------------------------|
| COMPONENT UNITS | | | | | |
| Alpena General Hospital G.O. Improvement Bonds - 1999 Amount of issue - \$7,525,000 Maturing through 2020 Interest rate ranges 4.85%-4.88% Principal maturity range \$225,000 \$550,000 | \$ 6,500,000 | \$ - | \$ (275,000) | \$ 6,225,000 | \$ 225,000 |
| Alpena General Hospital G.O. Improvement Bonds - 2000 Maturing through 2020 Interest rate ranges 5.00-5.35% Principal maturity range \$300,000 \$550,000 | 5,225,000 | - | (200,000) | 5,025,000 | 300,000 |
| Alpena General Hospital G.O. Improvement Bonds - 2003 Maturing through 2008 Interest rate range 3.53% Principal maturity range \$785,000 \$840,000 | 3,195,000 | - | (760,000) | 2,435,000 | 785,000 |
| Alpena General Hospital Equipment notes payable Interest rate ranges 3.77%-4.27% | 1,128,035 | 728,383 | (296,181) | 1,560,237 | 354,155 |
| | <u>16,048,035</u> | <u>728,383</u> | <u>(1,531,181)</u> | <u>15,245,237</u> | <u>1,664,155</u> |
| Compensated absences | | | | | |
| Alpena General Hospital | 2,237,649 | 2,482,907 | (2,237,649) | 2,482,907 | 2,482,907 |
| Alpena County Road Commission | 74,059 | 75,099 | (74,059) | 75,099 | - |
| District Health Department #4 | 522,655 | 509,775 | (522,655) | 509,775 | - |
| Alpena County Library | - | 70,160 | - | 70,160 | - |
| | <u>2,834,363</u> | <u>3,137,941</u> | <u>(2,834,363)</u> | <u>3,137,941</u> | <u>2,482,907</u> |
| | <u>\$18,882,398</u> | <u>\$ 3,866,324</u> | <u>\$(4,365,544)</u> | <u>\$18,383,178</u> | <u>\$ 4,147,062</u> |

County of Alpena

NOTES TO FINANCIAL STATEMENTS

Annual requirements to pay bond and loan debt principal and interest outstanding are as follows:

| <u>Year Ending</u> | <u>Primary Government</u> | | <u>Component Units</u> | |
|--------------------|---------------------------|-------------------|------------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2006 | \$ 838,336 | \$ 156,407 | \$ 1,664,155 | \$ 694,540 |
| 2007 | 694,516 | 121,938 | 1,703,856 | 625,742 |
| 2008 | 608,832 | 88,341 | 1,799,169 | 554,159 |
| 2009 | 332,829 | 62,194 | 1,000,121 | 478,998 |
| 2010 | 305,607 | 48,255 | 677,936 | 438,329 |
| 2011-2015 | 945,000 | 89,862 | 3,650,000 | 1,675,384 |
| 2016-2020 | <u>90,000</u> | <u>2,250</u> | <u>4,750,000</u> | <u>636,175</u> |
| | <u>\$ 3,815,120</u> | <u>\$ 569,247</u> | <u>\$15,245,237</u> | <u>\$ 5,103,327</u> |

The Water and Sewage Bonds are contractual obligations with Alpena Township. These bonds are secured by special assessments levied against benefiting real property within these districts.

On December 1, 1992 the County of Alpena, on behalf of the Hospital, issued \$13,135,000 in refunding bonds for the purpose of advance refunding the \$13,020,000 outstanding principal of the General Obligation Hospital Improvement Refunding Bonds, dated June 1, 1985. The County has agreed to levy annually an ad valorem tax on the real property in the County to be used, together with the Hospital's contribution, for payment of debt service. The 1992 Refunding Bonds are not subject to redemption prior to maturity in 2002.

On March 1, 1998 the County of Alpena on behalf of the Alpena County Building Authority, issued \$1,360,000 in refunding bonds for the purpose of advance refunding the \$1,260,000 outstanding principal of the 1991 Building Authority Bonds, dated January 1, 1992. The proceeds of the 1998 issue are to be used to purchase obligations of the United States of America, the proceeds of such Government Obligations, together with the earnings will be used to pay principal and interest on the Refunded Bonds. The 1998 Refunding Bonds are not subject to redemption prior to maturity in 2006. As a result of the Bond Refunding the County experienced a net reduction in debt service payments of \$48,770.

On January 1, 1994, the County of Alpena, on behalf of the City, issued \$2,705,000 in General Obligation Bonds with an average interest rate of 4.55 percent to advance refund \$2,475,000 of outstanding 1978 Series Bonds with an average interest rate of 6.55 percent. The net proceeds of \$2,608,436 (after payment of \$86,533 in underwriting fees, insurance, and other costs, plus \$10,031 in bond discounts) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1978 Series bonds. As a result, the 1978 Series bonds are considered to be defeased and the liability for those bonds has been removed from the general long-term debt account group.

The City advance refunded the 1978 Series bonds to reduce its total debt service payments over the next 15 years by \$173,068 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$130,185.

County of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 8--LEASES.

The County is party to numerous operating leases. Minimum future rental payments under existing leases are not significant.

NOTE 9—RESTRICTED NET ASSETS.

Restrictions of net assets reflected in the Government-wide financial statements indicate that restrictions imposed by the board of commissioners, the funding source or outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of December 31, 2005:

Primary Government

Governmental Activities:

General Fund

| | |
|-------------------------------------------|-----------|
| Replace/acquire building and land reserve | \$ 30,000 |
| Roof replacement reserve | 20,000 |
| F.I.A. loan reserve | 44,000 |
| Technology reserve | 1,375 |
| Reserved for pending obligations | 42,957 |

Special Revenue Funds

Housing Fund

| | |
|----------------------------------------|-----------|
| Reserved for mortgage loans receivable | 2,266,609 |
|----------------------------------------|-----------|

Airport

| | |
|----------------------------|-------|
| Designated for maintenance | 6,315 |
|----------------------------|-------|

Northern Lights Arena

| | |
|-------------------------------|--------|
| Designated for capital outlay | 12,658 |
|-------------------------------|--------|

Older persons fund

| | |
|----------------------------------------|--------|
| Designated for repairs and replacement | 24,937 |
|----------------------------------------|--------|

Parks

| | |
|--------------------------------|--------|
| Designated for wood harvesting | 80,000 |
|--------------------------------|--------|

Debt Service Funds

| | |
|-----------------------------|---------|
| Designated for debt service | 160,908 |
|-----------------------------|---------|

Component Units

Road Commission

| | |
|----------------------------------------|--------|
| Reserved for primary road expenditures | 10,913 |
|----------------------------------------|--------|

Alpena General Hospital

| | |
|---------------------------------|-----------|
| Reserved for donor restrictions | 1,702,645 |
|---------------------------------|-----------|

County of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 10--PROPERTY TAXES AND TAXES RECEIVABLE.

The County property tax is levied each July 1 and Dec 1 through 2007 on the taxable valuation of property located in the County as of the preceding December 31. On July or December 1, the property tax attachment is an enforceable lien on property and is payable by the last day of the next September or February, respectively.

Although the County's 2005 ad valorem tax is levied and collectible by December 1, 2005, it is the County's policy for all governmental fund types (with the exception below) to recognize revenues from the current tax levy in the year when the proceeds of the levy are budgeted and made available for financing County operations.

Taxable values are established annually by the local municipalities and are equalized by the County based on State statutes at an estimated percentage of the current market value. Beginning with the 1995 tax year, State Proposal "A" changed the way property taxes were computed. Under Proposal "A", the County Assessor determines the assessed value of a property, which is 50% of the current market value. However, the taxable value of a property cannot increase more than 5% or the rate of inflation annually, whichever is less. Therefore, over time, the taxable value will normally be less than the assessed value. However, when a property is sold, the accumulated effect of the above capping is erased and the assessed value constitutes the basis (taxable value) for the next property tax cycle.

Beginning with the 2004 tax levy the State has mandated the creation of a Revenue Sharing Reserve fund into which one-third of the County's 2004 to 2006 ad valorem operating tax is being recognized. The purpose of the fund is to accumulate reserves of the County's own local funds from which an amount similar to Revenue Sharing payments, formerly made by the State, will be made back to the General Fund. As part of this process, the County's tax levy will be shifting over the next three years from winter to summer. Property taxes are recognized in the financial statements as taxes receivable and property tax revenue in 2005.

Real and personal property in Alpena County for the 2005 levy had a taxable value of \$1,116,554,765 on which ad valorem taxes levied for County general operating purposes was 4.8009 mills (limited to 15 mills) with an additional .9804, .7461, .9300, and .5397 mills voted for the Hospital, Library, Ambulance, and Older Persons. These amounts are recognized in the respective General, Special Revenue, Debt Service, and component unit financial statements as taxes receivable, with an offsetting credit to unearned revenue.

By agreement with various taxing authorities, the County purchases at face value the real property taxes receivable returned delinquent each March 1. These receivables, together with interest and administration fees collected, are paid to the County's Delinquent Tax Revolving Fund, which advanced the money used to liquidate amounts due the General Fund, various other funds, other governmental units, and to provide funds for current operations. Taxes receivable of \$2,181,321 at March 1, 2006 and \$1,921,483 at March 1, 2005, were purchased by the County using the cash reserves of its Delinquent Tax Revolving Fund.

NOTE 11--DEFERRED COMPENSATION PLAN.

Alpena County offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account annuity contract) as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Alpena County) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provision of GASB Statement No. 32, plan balances and activities are not reflected in the Alpena County financial statements.

County of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 12--EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS.

Description of Retirement Plan and Plan Assets

The County is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.00 to 2.50 percent times the final average compensation (FAC) with a maximum benefit of 80 percent of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2004.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the County's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The County is required to contribute at an actuarially determined rate.

The contribution rate as a percentage of payroll at December 31, 2004 is as follows:

| | |
|-----------------------|--------|
| Local Union 212 | 13.41% |
| Sheriff | 12.23% |
| Elected Appointed | 11.73% |
| 911 employees | 10.69% |
| Northland library | 09.83% |
| Alpena County library | 14.97% |

Annual Pension Cost

During the fiscal year ended December 31, 2005, the County's contributions totaling \$378,384 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2000. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5% percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three Year Trend Information for GASB Statement No. 27

| <u>Year Ended</u> <u>December 31</u> | <u>Annual</u> <u>Pension</u> <u>Cost (APC)</u> | <u>Percentage</u> <u>of APC</u> <u>Contributed</u> | <u>Net</u> <u>Pension</u> <u>Obligation</u> |
|-----------------------------------------|------------------------------------------------------|----------------------------------------------------------|---------------------------------------------------|
| 2002 | \$ 374,947 | 100% | \$ 0 |
| 2003 | 380,972 | 100% | 0 |
| 2004 | 381,216 | 100% | 0 |

County of Alpena

NOTES TO FINANCIAL STATEMENTS

**Required Supplementary Information for
GASB Statement No. 27**

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Accrued Liability (AAL)</u> | <u>Underfunded AAL (UAAL)</u> | <u>Funded Ratio</u> | <u>Covered Payroll</u> | <u>UAAL as a Percent of Covered Payroll</u> |
|-----------------------------------------|------------------------------------------|------------------------------------------------------|---------------------------------------|-------------------------|----------------------------|---------------------------------------------------------|
| 12/31/02 | \$ 7,999,896 | \$10,567,336 | \$ 2,567,440 | 75.0% | \$ 3,296,589 | 78.0% |
| 12/31/03 | 8,655,573 | 11,069,544 | 2,413,971 | 78.0% | 3,362,727 | 72.0% |
| 12/31/04 | 9,311,382 | 12,313,305 | 3,001,923 | 95.6% | 3,222,858 | 93.1% |

Component Unit Retirement Disclosures

The Alpena General Hospital, Alpena County Road Commission and the District Health Department No. 4 participate in the Michigan Municipal Employees Retirement System, a multiple employer defined benefit pension plan, administered by the State of Michigan. The following table presents the relevant information for each plan:

| | <u>Actuarial Accrued Liability</u> | <u>Actuarial Value of Assets</u> |
|----------------------------------|--------------------------------------------|------------------------------------------|
| Alpena General Hospital | \$100,924,564 | \$ 90,048,730 |
| Alpena County Road Commission | 8,286,597 | 7,380,752 |
| District Health Department No. 4 | 10,363,355 | 8,457,389 |

Postretirement Benefits. The County of Alpena offers no postemployment benefits to its retirees. However, retirees can continue coverage with the County's health care insurance at their own expense.

NOTE 13--CONTINGENCIES, CLAIMS, AND LITIGATION.

There are various legal actions pending against the County. Due to the inconclusive nature of these actions, it is not possible for the County to determine the probable outcome of these actions nor provide a reasonable estimate of the County's potential liability, if any. The County believes that it has sufficient insurance coverage to provide for possible losses resulting from the unfavorable outcome of any litigation.

NOTE 14--RISK MANAGEMENT.

The County is exposed to various risks of loss related to property loss, torts, errors, and omissions, employee injuries, unemployment benefits, as well as medical and workman's compensation benefits provided to employees. The County has purchased commercial insurance for fleet equipment and tort claims, boiler and machinery, certain property and equipment damage and theft, employee theft, and limited tort claims for specific County facilities or events.

Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverages obtained through commercial insurance during the past year. The County pays unemployment claims on a reimbursement basis.

County of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 15--JOINT VENTURES.

In February 1998, the County of Alpena joined Montmorency County and Oscoda County in creating the *Montmorency-Oscoda-Alpena Solid Waste Management Authority* in accordance of Act No. 223 of the Public Acts of 1955 of the State of Michigan.

This authority manages a landfill located in Montmorency County and is governed by a six person board, with two representatives for each county.

Annually each County has been asked to use their annual financial statements to assure the unfunded portion of the Closure and Post Closure cost. That Closure cost balance on December 31, 2005 is \$3,368,215 with certificates of deposit and other investments amounting to \$1,928,884 of that balance.

The County has no significant influence over the management of the authority and that is why they are not included in the County's Annual financial report.

The Montmorency-Oscoda-Alpena Solid Waste Management Authority maintains the financial records at the Montmorency County Court House, Atlanta, MI 48709 and the office number is (989) 785-8003.

In January 2000, the County joined Montmorency County in forming the *Northeast Michigan Recycling Alliance Authority*, under Act No. 223 of the Public Acts of 1955 of the State of Michigan.

The authority manages a transfer station and recycling facility on West M-32 in Wilson Township in Alpena County. It is governed by a six person board, with three representatives from each County.

The County has no significance influence over the management of the authority and that is why they are not included in the County's Annual financial report.

The Northeast Michigan Recycling Alliance Authority maintains the financial records at the Montmorency County Court House, Atlanta, MI 48709 and the office number is (989) 785-8003. Its financial office is located at the Alpena Soil Conservation District Office located at 1900 W. M-32, Alpena, Michigan and the office number if (989) 356-6038.

County of Alpena

MAJOR FUNDS

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2005

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with</u> |
|-------------------------------------------|-------------------------|---------------------|---------------------|----------------------|
| | <u>Original</u> | <u>Final</u> | <u>Amount</u> | <u>Final Budget</u> |
| | | | | <u>Favorable</u> |
| | | | | <u>(Unfavorable)</u> |
| General Fund | | | | |
| Budgetary fund balance, January 1, 2005 | \$ 967,034 | \$ 967,034 | \$ 967,034 | \$ - |
| Resources (inflows): | | | | |
| Taxes | 3,392,116 | 3,840,526 | 3,840,852 | 326 |
| Licenses and permits | 19,550 | 16,050 | 16,754 | 704 |
| Federal grants | 258,900 | 377,682 | 297,042 | (80,640) |
| State grants | 905,183 | 961,049 | 809,464 | (151,585) |
| Charges for service | 988,900 | 1,291,818 | 1,300,229 | 8,411 |
| Fines and forfeitures | 89,000 | 83,300 | 83,370 | 70 |
| Interest and rents | 50,300 | 82,355 | 88,817 | 6,462 |
| Other revenue | 603,115 | 636,382 | 636,145 | (237) |
| Transfers from other funds | <u>1,118,688</u> | <u>1,445,838</u> | <u>1,302,918</u> | <u>(142,920)</u> |
| Amounts available for appropriation | <u>8,392,786</u> | <u>9,702,034</u> | <u>9,342,625</u> | <u>(359,409)</u> |
| EXPENDITURES | | | | |
| Legislative | 188,198 | 190,325 | 188,750 | 1,575 |
| Judicial | 1,274,930 | 1,275,201 | 1,261,659 | 13,542 |
| General government | 3,106,869 | 3,099,416 | 3,019,933 | 79,483 |
| Public safety | 2,123,530 | 2,263,191 | 2,123,529 | 139,662 |
| Public works | 985 | 985 | 892 | 93 |
| Health and welfare | 442,726 | 491,134 | 457,576 | 33,558 |
| Community and economic development | 380,841 | 377,433 | 375,386 | 2,047 |
| Transfers to other funds | <u>630,579</u> | <u>743,588</u> | <u>723,588</u> | <u>20,000</u> |
| Total charges to appropriations | <u>8,148,658</u> | <u>8,441,273</u> | <u>8,151,313</u> | <u>289,960</u> |
| Budgetary fund balance, December 31, 2005 | <u>\$ 244,128</u> | <u>\$ 1,260,761</u> | <u>\$ 1,191,312</u> | <u>\$ (69,449)</u> |

County of Alpena

MAJOR FUNDS

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2005

| | Budgeted Amounts | | Actual | Variance with |
|-------------------------------------------|------------------|------------|------------|---------------|
| | Original | Final | Amount | Final Budget |
| | | | | Favorable |
| | | | | (Unfavorable) |
| Ambulance Fund | | | | |
| Budgetary fund balance, January 1, 2005 | \$ 802,363 | \$ 802,363 | \$ 802,363 | \$ - |
| Resources (inflows): | | | | |
| Property taxes | 639,069 | 714,467 | 714,496 | 29 |
| Federal grants | - | - | - | - |
| State grants | 12,000 | 17,523 | 17,523 | - |
| Interest and rents | 6,000 | 29,630 | 30,207 | 577 |
| Other | 100 | 100 | - | (100) |
| Amounts available for appropriation | 1,459,532 | 1,564,083 | 1,564,589 | 506 |
| EXPENDITURES | | | | |
| Public safety | 872,058 | 900,530 | 796,740 | 103,790 |
| Total charges to appropriations | 872,058 | 900,530 | 796,740 | 103,790 |
| Budgetary fund balance, December 31, 2005 | \$ 587,474 | \$ 663,553 | \$ 767,849 | \$ 104,296 |
| Housing Commission Fund | | | | |
| Budgetary fund balance, January 1, 2005 | \$ 56,357 | \$ 56,357 | \$ 56,357 | \$ - |
| Resources (inflows): | | | | |
| Federal grants | 140,000 | 81,000 | 113,025 | 32,025 |
| Charges for service | 100,000 | 128,000 | 102,188 | (25,812) |
| Interest and rents | 1,000 | 1,000 | 627 | (373) |
| Other | 50 | 50 | - | (50) |
| Amounts available for appropriation | 297,407 | 266,407 | 272,197 | 5,790 |
| EXPENDITURES | | | | |
| Health and welfare | 239,015 | 266,407 | 253,658 | 12,749 |
| Total charges to appropriations | 239,015 | 266,407 | 253,658 | 12,749 |
| Budgetary fund balance, December 31, 2005 | \$ 58,392 | \$ - | \$ 18,539 | \$ 18,539 |

County of Alpena

MAJOR FUNDS

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2005

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with</u> |
|-------------------------------------------|-------------------------|---------------------|---------------------|----------------------|
| | <u>Original</u> | <u>Final</u> | <u>Amount</u> | <u>Final Budget</u> |
| | | | | <u>Favorable</u> |
| | | | | <u>(Unfavorable)</u> |
| Revenue Sharing Reserve Fund | | | | |
| Budgetary fund balance, January 1, 2005 | \$ 1,043,982 | \$ 1,043,982 | \$ 1,043,982 | \$ - |
| Property taxes | - | 1,273,381 | 1,265,350 | (8,031) |
| Interest and rents | 800 | 17,000 | 17,625 | 625 |
| Amounts available for appropriation | <u>1,044,782</u> | <u>2,334,363</u> | <u>2,326,957</u> | <u>(7,406)</u> |
| EXPENDITURES | | | | |
| Transfers to other funds | <u>499,888</u> | <u>874,457</u> | <u>637,027</u> | <u>237,430</u> |
| Total charges to appropriations | <u>499,888</u> | <u>874,457</u> | <u>637,027</u> | <u>237,430</u> |
| Budgetary fund balance, December 31, 2005 | <u>\$ 544,894</u> | <u>\$ 1,459,906</u> | <u>\$ 1,689,930</u> | <u>\$ 230,024</u> |

County of Alpena

General Fund

COMPARATIVE BALANCE SHEET

| | December 31 | |
|--------------------------------------|---------------------|---------------------|
| | 2005 | 2004 |
| ASSETS | | |
| Cash and cash equivalents | \$ 832,056 | \$ 484,929 |
| Investments | 316,669 | 307,746 |
| Receivables | | |
| Taxes | 1,395,996 | 3,844,235 |
| Interest and accounts | 7,360 | 1,051 |
| Due from other governmental units | 163,059 | 147,533 |
| Due from other funds | - | 237,430 |
| Total assets | <u>\$ 2,715,140</u> | <u>\$ 5,022,924</u> |
| LIABILITIES AND FUND BALANCES | | |
| Accounts payable | \$ 45,549 | \$ 120,941 |
| Accrued payroll and withholdings | 82,283 | 90,714 |
| Unearned revenue | <u>1,395,996</u> | <u>3,844,235</u> |
| Total liabilities | <u>1,523,828</u> | <u>4,055,890</u> |
| Fund Balances | | |
| Unreserved | | |
| Designated | 138,332 | 138,332 |
| Undesignated | <u>1,052,980</u> | <u>828,702</u> |
| Total fund balance | <u>1,191,312</u> | <u>967,034</u> |
| Total liabilities and fund balance | <u>\$ 2,715,140</u> | <u>\$ 5,022,924</u> |

County of Alpena

General Fund

BUDGETARY COMPARISON SCHEDULE OF REVENUES AND EXPENDITURES

| | Year Ended December 31, 2005 | | | |
|--------------------------------------|------------------------------|------------------|------------------|------------------|
| | Budgeted Amounts | | Actual | 2004 |
| | Original | Amended | Amounts | Actual |
| REVENUES | | | | |
| TAXES | | | | |
| Property Taxes | \$ 3,339,116 | \$ 3,787,526 | \$ 3,787,656 | \$ 3,675,510 |
| Others | 53,000 | 53,000 | 53,196 | 53,795 |
| | <u>3,392,116</u> | <u>3,840,526</u> | <u>3,840,852</u> | <u>3,729,305</u> |
| LICENSES AND PERMITS | | | | |
| Licenses and Permits | <u>19,550</u> | <u>16,050</u> | <u>16,754</u> | <u>21,181</u> |
| FEDERAL GRANTS | | | | |
| IV-D Cooperative Reimbursement | 50,780 | 50,780 | 34,341 | 43,382 |
| Emergency Management | 12,000 | 13,800 | 13,846 | 11,795 |
| Community Emergency Response | - | 71,675 | 69,284 | - |
| Homeland Security | 196,120 | 196,120 | 185,676 | 8,038 |
| Solution Area Planner | - | 18,307 | 18,307 | 15,692 |
| W.M.D. Exercise | - | 27,000 | 26,970 | 21,151 |
| | <u>258,900</u> | <u>377,682</u> | <u>348,424</u> | <u>100,058</u> |
| STATE GRANTS | | | | |
| Single Business Tax | 70,000 | 94,510 | 94,510 | 81,960 |
| State Income Tax | - | - | - | 365,316 |
| Judicial Payments | 120,704 | 120,704 | 120,617 | 152,624 |
| Probate Court | 101,633 | 101,633 | 78,347 | 101,689 |
| State Court Fund | 200,000 | 203,134 | 203,134 | 208,861 |
| Secondary Road Patrol | 80,170 | 80,170 | 80,170 | 80,089 |
| Parent Education | - | - | - | 8,347 |
| Liquor and Convention Facilities Tax | 135,102 | 137,166 | 137,166 | 129,156 |
| Cigarette Tax | 19,578 | 19,578 | 19,574 | 18,006 |
| State Survey and Remonumentation | 92,934 | 94,671 | 22,199 | 53,062 |
| Victims Rights | 42,600 | 59,490 | 59,490 | 35,773 |
| D.N.R. Safety | 6,000 | 6,600 | 6,580 | 11,504 |
| Household Hazardous Waste Collection | - | - | - | 29,158 |
| Others | <u>36,512</u> | <u>43,443</u> | <u>20,098</u> | <u>15,904</u> |
| | <u>905,233</u> | <u>961,099</u> | <u>841,885</u> | <u>1,291,449</u> |

(continued)

County of Alpena

General Fund

BUDGETARY COMPARISON SCHEDULE OF REVENUES AND EXPENDITURES - Continued

| | Year Ended December 31, 2005 | | | |
|------------------------------------|------------------------------|------------------|------------------|------------------|
| | Budgeted Amounts | | Actual | 2004 |
| | Original | Amended | Amounts | Actual |
| REVENUES - continued | | | | |
| CHARGES FOR SERVICES | | | | |
| District Court | \$ 357,000 | \$ 345,800 | \$ 346,396 | \$ 353,509 |
| Circuit Court | 54,000 | 82,637 | 83,154 | 86,378 |
| Friend of the Court | - | 145,782 | 145,782 | 117,606 |
| Probate Court | 16,300 | 19,664 | 19,390 | 16,734 |
| Probation Enhancement | - | - | - | 1,206 |
| Family Division Court | - | 20,884 | 20,884 | - |
| Clerk | 68,000 | 72,400 | 72,657 | 68,146 |
| Register of Deeds | 210,000 | 206,600 | 206,617 | 213,794 |
| Property Transfer Fees | 90,000 | 85,800 | 85,868 | 92,576 |
| Sheriff | 167,500 | 281,635 | 281,480 | 191,040 |
| Treasurer | 12,000 | 9,500 | 9,064 | 10,266 |
| Others | 14,100 | 21,116 | 20,992 | 23,417 |
| | <u>988,900</u> | <u>1,291,818</u> | <u>1,292,284</u> | <u>1,174,672</u> |
| FINES AND FORFEITURES | <u>89,000</u> | <u>83,300</u> | <u>83,370</u> | <u>84,859</u> |
| INTEREST AND RENTS | | | | |
| Interest Earned | 45,000 | 78,500 | 78,653 | 47,149 |
| Rents | 5,300 | 3,855 | 3,855 | 3,500 |
| | <u>50,300</u> | <u>82,355</u> | <u>82,508</u> | <u>50,649</u> |
| OTHER REVENUE | | | | |
| Central Service Reimbursements | 116,213 | 140,513 | 140,778 | 124,260 |
| Reimbursements and Refunds | 486,902 | 495,869 | 495,367 | 474,760 |
| | <u>603,115</u> | <u>636,382</u> | <u>636,145</u> | <u>599,020</u> |
| TOTAL REVENUES | <u>6,307,114</u> | <u>7,289,212</u> | <u>7,142,222</u> | <u>7,051,193</u> |
| TRANSFERS IN | | | | |
| Delinquent Tax Payment | 520,000 | 596,235 | 596,235 | 257,744 |
| Revenue Sharing Reserve | 499,888 | 779,947 | 779,947 | - |
| Budget Stabilization | - | - | - | 100,000 |
| Child Care - Probate Court | 50,000 | 26,000 | 26,000 | - |
| Child Care - DHS | - | 15,683 | 15,683 | 1,338 |
| Department of Human Services (DHS) | - | - | - | 17,687 |
| Older Persons Fund | 48,800 | 27,973 | 27,973 | - |
| | <u>1,118,688</u> | <u>1,445,838</u> | <u>1,445,838</u> | <u>376,769</u> |
| Total revenues and transfers in | 7,425,802 | 8,735,050 | 8,588,060 | 7,427,962 |

County of Alpena

General Fund

BUDGETARY COMPARISON SCHEDULE OF REVENUES AND EXPENDITURES

| | Year Ended December 31, 2005 | | | |
|----------------------------------|------------------------------|------------------|------------------|------------------|
| | Budgeted Amounts | | Actual | 2004 |
| | Original | Amended | Amounts | Actual |
| EXPENDITURES | | | | |
| LEGISLATIVE | | | | |
| Board of Commissioners | \$ 188,198 | \$ 190,325 | \$ 188,860 | \$ 170,144 |
| JUDICIAL | | | | |
| District Court | 498,845 | 494,091 | 489,388 | 495,305 |
| Circuit Court | 308,511 | 308,511 | 308,511 | 367,580 |
| Friend of the Court | 89,529 | 89,529 | 89,529 | 111,171 |
| Probate Court | 253,203 | 260,879 | 258,328 | 265,648 |
| Probation enhancement | 4,550 | 1,889 | 1,860 | 5,030 |
| Public Guardian | 28,798 | 28,808 | 27,847 | 27,095 |
| Regional Community Correction | - | - | - | 3,919 |
| Family Division - Juvenile | 91,494 | 91,494 | 91,494 | 65,185 |
| | <u>1,274,930</u> | <u>1,275,201</u> | <u>1,266,957</u> | <u>1,340,933</u> |
| GENERAL GOVERNMENT | | | | |
| Coordinator | 83,473 | 75,157 | 74,098 | 81,240 |
| Elections | 19,722 | 16,452 | 15,394 | 32,056 |
| Board of Canvassers | 1,176 | 1,176 | - | 950 |
| County General | 132,008 | 179,754 | 179,521 | 83,457 |
| Clerk | 221,277 | 212,255 | 209,000 | 208,721 |
| Equalization | 243,544 | 223,997 | 221,025 | 219,074 |
| Prosecuting Attorney | 377,641 | 382,254 | 378,027 | 366,840 |
| IV-D Cooperative Reimbursement | 73,305 | 75,504 | 64,880 | 51,234 |
| Register of Deeds | 190,796 | 187,677 | 185,700 | 180,933 |
| State Survey and Remonumentation | 92,934 | 93,596 | 93,558 | 35,521 |
| Treasurer | 222,203 | 217,494 | 212,760 | 208,809 |
| Building Authority | 266,583 | 266,583 | 266,330 | 258,788 |
| Building and Grounds | 686,741 | 695,885 | 694,534 | 669,082 |
| DHS State Lease | 76,147 | 74,647 | 72,040 | 70,427 |
| Drain Commissioner | 13,510 | 13,960 | 12,911 | 12,654 |
| MSU Cooperative Extension | 74,904 | 72,504 | 70,856 | 64,349 |
| MSU Parent Educator | - | - | - | 6,652 |
| Data Processing | 330,905 | 310,521 | 296,609 | 283,082 |
| | <u>3,106,869</u> | <u>3,099,416</u> | <u>3,047,243</u> | <u>2,833,869</u> |
| PUBLIC WORKS | | | | |
| Department of Public Works | 985 | 985 | 891 | 666 |

(continued)

County of Alpena

General Fund

BUDGETARY COMPARISON SCHEDULE OF REVENUES AND EXPENDITURES - Continued

| EXPENDITURES (Continued) | Year Ended December 31, 2005 | | | 2004 Actual |
|-----------------------------------------------|------------------------------|------------------|-------------------|------------------|
| | Budgeted Amounts | | Actual Amounts | |
| | Original | Amended | | |
| PUBLIC SAFETY | | | | |
| Sheriff Department / Jail | \$ 1,604,976 | \$ 1,636,209 | \$ 1,614,595 | \$ 1,665,574 |
| H.U.N.T. Program | 32,428 | 33,428 | 33,376 | 32,220 |
| Secondary Road Patrol Program | 76,704 | 75,817 | 62,035 | 48,211 |
| D.A.R.E. Progam | 11,000 | 6,550 | 6,511 | - |
| D.N.R. Safety Program | 17,043 | 20,272 | 5,039 | 3,319 |
| School Liaison Program | 53,006 | 40,256 | 37,372 | 54,695 |
| Victims Rights Services | 49,322 | 50,232 | 45,962 | 42,083 |
| Office of Emergency Preparation | 33,009 | 33,109 | 31,925 | 37,825 |
| Livestock Damage | 100 | 100 | 100 | - |
| Ordinance Enforcement Officer | 49,913 | 50,450 | 49,718 | 43,311 |
| Community Emergency Response | - | 67,153 | 62,589 | 4,513 |
| Solution Area Planner | - | 13,057 | 10,461 | 20,923 |
| Homeland Security Exercise Grant | 37,232 | 32,200 | 17,021 | 9,955 |
| Homeland Security Training Grant | - | 37,233 | 17,606 | 20,156 |
| Homeland Security Equipment Grant | 158,797 | 167,125 | 165,189 | 1,587 |
| | <u>2,123,530</u> | <u>2,263,191</u> | <u>2,159,499</u> | <u>1,984,372</u> |
| HEALTH AND WELFARE | | | | |
| Communicable Disease | 700 | 1,400 | 765 | 891 |
| Medical Examiner | 41,630 | 40,288 | 30,575 | 32,146 |
| State Institutions-Mental | 50,000 | 91,400 | 91,388 | 47,215 |
| District Health | 204,010 | 204,010 | 204,010 | 150,000 |
| Northeast Michigan Mental Health | 94,737 | 94,737 | 94,737 | 94,737 |
| Veterans Burials | 6,250 | 13,950 | 13,211 | 6,241 |
| Veterans Counselor | 38,399 | 38,349 | 35,855 | 34,413 |
| MI Department AG-Clean Sweep Project | 7,000 | 7,000 | 747 | - |
| | <u>442,726</u> | <u>491,134</u> | <u>471,288</u> | <u>365,643</u> |
| COMMUNITY AND ECONOMIC DEVELOPMENT | | | | |
| Planning Commission | 8,553 | 3,053 | 2,349 | 17,725 |
| Associations and Community Groups | 372,288 | 374,380 | 373,687 | 316,952 |
| | <u>380,841</u> | <u>377,433</u> | <u>376,036</u> | <u>334,677</u> |
| TOTAL EXPENDITURES | 7,518,079 | 7,697,685 | 7,510,774 | 7,030,304 |

County of Alpena

General Fund

BUDGETARY COMPARISON SCHEDULE OF REVENUES AND EXPENDITURES

| | Year Ended December 31, 2005 | | | |
|---------------------------------------------------------------------------------------------------------------|------------------------------|-------------------|-------------------|---------------------|
| | Budgeted Amounts | | Actual | 2004 |
| | Original | Amended | Amounts | Actual |
| TRANSFERS OUT | | | | |
| Airport | \$ 65,951 | \$ 153,960 | \$ 133,960 | \$ 47,943 |
| Child Care - DHS | 2,000 | 2,000 | 2,000 | 2,000 |
| Child Care - Probate Court | 360,544 | 360,544 | 360,544 | 401,507 |
| Department of Human Services (DHS) | 24,000 | 24,000 | 24,000 | 24,000 |
| Equipment Fund | 160,000 | 160,000 | 160,000 | 126,803 |
| Law Library | 13,270 | 13,270 | 13,270 | 12,400 |
| Parks and Recreation | - | - | - | 10,000 |
| Plaza Pool | 4,814 | 29,814 | 29,814 | 35,401 |
| | <u>630,579</u> | <u>743,588</u> | <u>723,588</u> | <u>660,054</u> |
| Total expenditures and transfers out | <u>8,148,658</u> | <u>8,441,273</u> | <u>8,234,362</u> | <u>7,690,358</u> |
| EXCESS OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES AND TRANSFERS (BUDGETARY BASIS) | | | | |
| | <u>\$ (722,856)</u> | <u>\$ 293,777</u> | 353,698 | (262,396) |
| ADJUSTMENTS | | | | |
| To adjust revenues for interest and tax accruals and deferrals | | | (212,470) | 108,515 |
| To adjust expenditures for accrual of payables | | | <u>83,050</u> | <u>(97,020)</u> |
| EXCESS OF REVENUES AND TRANSFERS OVER (UNDER) EXPENDITURES AND TRANSFERS (GAAP BASIS) | | | | |
| | | | <u>\$ 224,278</u> | <u>\$ (250,901)</u> |

County of Alpena

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

December 31, 2005

| | <u>Airport</u> | <u>Alpena General Hospital Capital</u> | <u>Budget Stabilization</u> |
|--------------------------------------|------------------|------------------------------------------------|---------------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 9,138 | \$ 3,078 | \$ 695 |
| Investments | - | - | 133,997 |
| Receivables | | | |
| Taxes | - | 818,011 | - |
| Interest and accounts | 18,069 | - | 31 |
| Loans | - | - | - |
| Due from other governmental units | 8,326 | - | - |
| Due from other funds | - | - | - |
| Inventories | - | - | - |
| | <u>\$ 35,533</u> | <u>\$ 821,089</u> | <u>\$ 134,723</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Accounts payable | \$ 2,446 | \$ - | \$ - |
| Accrued payroll and withholdings | 3,706 | - | - |
| Due to other funds | - | - | - |
| Advances payable | - | - | - |
| Deferred revenue | - | 818,011 | - |
| | <u>6,152</u> | <u>818,011</u> | <u>-</u> |
| Fund equity | | | |
| Fund balances | | | |
| Reserved | - | - | - |
| Unreserved | | | |
| Designated | 6,315 | - | - |
| Undesignated | 23,066 | 3,078 | 134,723 |
| | <u>29,381</u> | <u>3,078</u> | <u>134,723</u> |
| | <u>\$ 35,533</u> | <u>\$ 821,089</u> | <u>\$ 134,723</u> |

| Child Care DHS | Child Care Probate Court | Corrections Training | Criminal Justice Training | Drug Law Enforcement | Enhanced 911 |
|-------------------|-----------------------------|-------------------------|------------------------------|-------------------------|-------------------|
| \$ 886 | \$ 79,575 | \$ 9,981 | \$ 7,430 | \$ 1,890 | \$ 62,185 |
| - | 137,278 | - | - | - | 15,445 |
| - | - | - | - | - | - |
| - | 34 | - | - | - | 43,959 |
| - | - | - | - | - | - |
| - | 52,434 | - | - | - | 28,285 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| <u>\$ 886</u> | <u>\$ 269,321</u> | <u>\$ 9,981</u> | <u>\$ 7,430</u> | <u>\$ 1,890</u> | <u>\$ 149,874</u> |
| \$ 130 | \$ 22,007 | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - | 14,878 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| <u>130</u> | <u>22,007</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>14,878</u> |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| <u>756</u> | <u>247,314</u> | <u>9,981</u> | <u>7,430</u> | <u>1,890</u> | <u>134,996</u> |
| <u>756</u> | <u>247,314</u> | <u>9,981</u> | <u>7,430</u> | <u>1,890</u> | <u>134,996</u> |
| <u>\$ 886</u> | <u>\$ 269,321</u> | <u>\$ 9,981</u> | <u>\$ 7,430</u> | <u>\$ 1,890</u> | <u>\$ 149,874</u> |

County of Alpena

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

December 31, 2005

| | Family Counseling | DHS | H.U.N.T. |
|--------------------------------------|----------------------|------------------|-------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 63,689 | \$ 34,765 | \$ 148,474 |
| Investments | - | - | - |
| Receivables | | | |
| Taxes | - | - | - |
| Interest and accounts | - | 50 | - |
| Loans | - | - | - |
| Due from other governmental units | 126 | 11,371 | 603 |
| Due from other funds | - | - | - |
| Inventories | - | - | - |
| | <u>\$ 63,815</u> | <u>\$ 46,186</u> | <u>\$ 149,077</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Accounts payable | \$ - | \$ 1,108 | \$ 8,386 |
| Accrued payroll and withholdings | - | - | - |
| Due to other funds | - | - | - |
| Advances payable | - | 33,000 | - |
| Deferred revenue | - | - | - |
| | <u>-</u> | <u>34,108</u> | <u>8,386</u> |
| Fund equity | | | |
| Fund balances | | | |
| Reserved | - | - | - |
| Unreserved | | | |
| Designated | - | - | - |
| Undesignated | 63,815 | 12,078 | 140,691 |
| | <u>63,815</u> | <u>12,078</u> | <u>140,691</u> |
| | <u>\$ 63,815</u> | <u>\$ 46,186</u> | <u>\$ 149,077</u> |

| <u>Law Library</u> | <u>Northern Lights Arena</u> | <u>Older Persons Act</u> | <u>Parks</u> | <u>Plaza Pool</u> | <u>Register of Deeds Automation</u> |
|------------------------|--------------------------------------|------------------------------|-------------------|-----------------------|---------------------------------------------|
| \$ 5,532 | \$ 39,102 | \$ 40,332 | \$ 6,145 | \$ 4,022 | \$ 15,120 |
| - | - | 99,166 | 145,209 | - | 24,260 |
| - | - | 451,153 | - | - | - |
| - | 43,233 | 1,218 | 822 | - | 6 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | 5,783 | - | - | - | - |
| <u>\$ 5,532</u> | <u>\$ 88,118</u> | <u>\$ 591,869</u> | <u>\$ 152,176</u> | <u>\$ 4,022</u> | <u>\$ 39,386</u> |
| \$ 1,016 | \$ 22,575 | \$ 22,294 | \$ - | \$ 600 | \$ - |
| - | 5,568 | - | - | 2,075 | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | 3,808 | 449,872 | - | - | - |
| <u>1,016</u> | <u>31,951</u> | <u>472,166</u> | <u>-</u> | <u>2,675</u> | <u>-</u> |
| - | - | - | - | - | - |
| - | 12,658 | 24,937 | 80,000 | - | - |
| 4,516 | 43,509 | 94,766 | 72,176 | 1,347 | 39,386 |
| <u>4,516</u> | <u>56,167</u> | <u>119,703</u> | <u>152,176</u> | <u>1,347</u> | <u>39,386</u> |
| <u>\$ 5,532</u> | <u>\$ 88,118</u> | <u>\$ 591,869</u> | <u>\$ 152,176</u> | <u>\$ 4,022</u> | <u>\$ 39,386</u> |

County of Alpena

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

December 31, 2005

| | Veterans Trust | EPA Sewer # 5 | EPA Water # 5 |
|--------------------------------------|-------------------|------------------|------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 292 | \$ - | \$ - |
| Investments | - | - | - |
| Receivables | | | |
| Taxes | - | - | - |
| Interest and accounts | - | - | - |
| Loans | - | - | - |
| Due from other governmental units | - | - | - |
| Due from other funds | - | - | - |
| Inventories | - | - | - |
| | <u>\$ 292</u> | <u>\$ -</u> | <u>\$ -</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Accounts payable | \$ - | \$ - | \$ - |
| Accrued payroll and withholdings | - | - | - |
| Due to other funds | - | - | - |
| Advances payable | - | - | - |
| Deferred revenue | - | - | - |
| | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund equity | | | |
| Fund balances | | | |
| Reserved | - | - | - |
| Unreserved | | | |
| Designated | - | - | - |
| Undesignated | 292 | - | - |
| | <u>292</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 292</u> | <u>\$ -</u> | <u>\$ -</u> |

| 1989 Water / Sewer Bond | Alpena County Building Authority Debt | Alpena County Building Authority Capital | Equipment and Replacement | Total Non-Major Governmental Funds |
|-------------------------------|---------------------------------------------|------------------------------------------------|------------------------------|---------------------------------------------|
| \$ - | \$ 83,933 | \$ - | \$ 22,696 | \$ 638,960 |
| - | 76,956 | - | 114,109 | 746,420 |
| - | - | - | - | 1,269,164 |
| - | 19 | - | 13,791 | 121,232 |
| - | - | - | - | - |
| - | - | - | - | 101,145 |
| - | - | - | - | - |
| - | - | - | - | 5,783 |
| <u>\$ -</u> | <u>\$ 160,908</u> | <u>\$ -</u> | <u>\$ 150,596</u> | <u>\$ 2,882,704</u> |
| \$ - | \$ - | \$ - | \$ 772 | \$ 81,334 |
| - | - | - | - | 26,227 |
| - | - | - | - | - |
| - | - | - | - | 33,000 |
| - | - | - | - | 1,271,691 |
| - | - | - | 772 | 1,412,252 |
| - | - | - | - | - |
| - | 160,908 | - | - | 284,818 |
| - | - | - | 149,824 | 1,185,634 |
| - | 160,908 | - | 149,824 | 1,470,452 |
| <u>\$ -</u> | <u>\$ 160,908</u> | <u>\$ -</u> | <u>\$ 150,596</u> | <u>\$ 2,882,704</u> |

County of Alpena

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**

December 31, 2005

| | Airport | Alpena General Hospital Capital | Budget Stabilization |
|----------------------------------------------------------------------------------------------|------------------|---------------------------------------|-------------------------|
| REVENUES | | | |
| Taxes | \$ - | \$ 783,050 | \$ - |
| Licenses and permits | - | - | - |
| Federal grants | 321,565 | - | - |
| State grants | 19,739 | 19,305 | - |
| Other intergovernmental revenue | - | - | - |
| Charges for service | 75,976 | - | - |
| Fines and forfeitures | - | - | - |
| Interest and rents | 144,831 | - | 4,187 |
| Other revenue | 4,428 | - | - |
| Total revenues | <u>566,539</u> | <u>802,355</u> | <u>4,187</u> |
| EXPENDITURES | | | |
| Current | | | |
| Judicial | - | - | - |
| General government | - | - | - |
| Public safety | - | - | - |
| Public works | - | - | - |
| Health and welfare | - | 802,428 | - |
| Recreation and cultural | 681,065 | - | - |
| Debt Service | | | |
| Principal | - | - | - |
| Interest | - | - | - |
| Total expenditures | <u>681,065</u> | <u>802,428</u> | <u>-</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | <u>(114,526)</u> | <u>(73)</u> | <u>4,187</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | 133,960 | - | - |
| Transfers (out) | - | - | - |
| | <u>133,960</u> | <u>-</u> | <u>-</u> |
| EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES | 19,434 | (73) | 4,187 |
| FUND BALANCES, beginning of the year | <u>9,947</u> | <u>3,151</u> | <u>130,536</u> |
| FUND BALANCES, end of the year | <u>\$ 29,381</u> | <u>\$ 3,078</u> | <u>\$ 134,723</u> |

| Child Care DHS | Child Care Probate Court | Corrections Training | Criminal Justice Training | Drug Law Enforcement | Enhanced 911 |
|-------------------|-----------------------------|-------------------------|------------------------------|-------------------------|-----------------|
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | 209,142 | - | 3,147 | - | - |
| - | 27,500 | - | - | - | - |
| - | 30,268 | 10,642 | - | - | 629,998 |
| - | - | - | - | - | - |
| - | 3,907 | - | - | - | 448 |
| - | - | - | - | - | 3,040 |
| - | 270,817 | 10,642 | 3,147 | - | 633,486 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | 6,838 | 1,115 | 154 | 664,037 |
| - | - | - | - | - | - |
| 2,504 | 473,210 | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| 2,504 | 473,210 | 6,838 | 1,115 | 154 | 664,037 |
| (2,504) | (202,393) | 3,804 | 2,032 | (154) | (30,551) |
| 2,600 | 360,544 | - | - | - | - |
| - | (26,600) | - | - | - | - |
| 2,600 | 333,944 | - | - | - | - |
| 96 | 131,551 | 3,804 | 2,032 | (154) | (30,551) |
| 660 | 115,763 | 6,177 | 5,398 | 2,044 | 165,547 |
| \$ 756 | \$ 247,314 | \$ 9,981 | \$ 7,430 | \$ 1,890 | \$ 134,996 |

County of Alpena

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**

December 31, 2005

| | Family Counseling | DHS | H.U.N.T. |
|----------------------------------------------------------------------------------------------|----------------------|------------------|-------------------|
| REVENUES | | | |
| Taxes | \$ - | \$ - | \$ - |
| Licenses and permits | 4,702 | - | - |
| Federal grants | - | - | 139,195 |
| State grants | - | 185,635 | - |
| Other intergovernmental revenue | - | - | 35,999 |
| Charges for service | - | 12,655 | - |
| Fines and forfeitures | - | - | - |
| Interest and rents | - | - | 2,509 |
| Other revenue | - | - | 60,870 |
| Total revenues | <u>4,702</u> | <u>198,290</u> | <u>238,573</u> |
| EXPENDITURES | | | |
| Current | | | |
| Judicial | - | - | - |
| General government | - | - | - |
| Public safety | - | - | 257,620 |
| Public works | - | - | - |
| Health and welfare | 630 | 217,771 | - |
| Recreation and cultural | - | - | - |
| Debt Service | | | |
| Principal | - | - | - |
| Interest | - | - | - |
| Total expenditures | <u>630</u> | <u>217,771</u> | <u>257,620</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | <u>4,072</u> | <u>(19,481)</u> | <u>(19,047)</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Operating transfers in | - | 24,000 | - |
| Operating transfers (out) | - | (15,682) | - |
| | <u>-</u> | <u>8,318</u> | <u>-</u> |
| EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES | 4,072 | (11,163) | (19,047) |
| FUND BALANCES, beginning of the year | <u>59,743</u> | <u>23,241</u> | <u>159,738</u> |
| FUND BALANCES, end of the year | <u>\$ 63,815</u> | <u>\$ 12,078</u> | <u>\$ 140,691</u> |

| Law Library | Northern Lights Arena | Older Persons Act | Parks | Plaza Pool | Register of Deeds Automation |
|-----------------|-----------------------------|----------------------|-------------------|-----------------|------------------------------------|
| \$ - | \$ - | \$ 430,464 | \$ - | \$ - | \$ - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | 10,630 | - | - | - |
| - | - | - | - | - | - |
| - | 681,678 | - | 117,693 | 47,361 | 40,892 |
| 3,500 | - | - | - | - | - |
| - | 102 | 8,074 | 6,599 | - | 148 |
| - | 88,622 | - | 14,697 | 667 | - |
| <u>3,500</u> | <u>770,402</u> | <u>449,168</u> | <u>138,989</u> | <u>48,028</u> | <u>41,040</u> |
| 12,766 | - | - | - | - | - |
| - | - | - | - | - | 25,610 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | 673,658 | 379,191 | 122,130 | 97,018 | - |
| - | 7,053 | - | - | - | - |
| - | - | - | - | - | - |
| <u>12,766</u> | <u>680,711</u> | <u>379,191</u> | <u>122,130</u> | <u>97,018</u> | <u>25,610</u> |
| (9,266) | 89,691 | 69,977 | 16,859 | (48,990) | 15,430 |
| 13,270 | - | - | - | 48,279 | - |
| - | - | (46,439) | - | - | - |
| <u>13,270</u> | <u>-</u> | <u>(46,439)</u> | <u>-</u> | <u>48,279</u> | <u>-</u> |
| 4,004 | 89,691 | 23,538 | 16,859 | (711) | 15,430 |
| <u>512</u> | <u>(33,524)</u> | <u>96,165</u> | <u>135,317</u> | <u>2,058</u> | <u>23,956</u> |
| <u>\$ 4,516</u> | <u>\$ 56,167</u> | <u>\$ 119,703</u> | <u>\$ 152,176</u> | <u>\$ 1,347</u> | <u>\$ 39,386</u> |

County of Alpena

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**

December 31, 2005

| | Veterans Trust | EPA Sewer # 5 | EPA Water # 5 |
|----------------------------------------------------------------------------------------------|-------------------|------------------|------------------|
| REVENUES | | | |
| Taxes | \$ - | \$ - | \$ - |
| Licenses and permits | - | - | - |
| Federal grants | - | - | - |
| State grants | 3,801 | - | - |
| Other intergovernmental revenue | - | 211,900 | 60,850 |
| Charges for service | - | - | - |
| Fines and forfeitures | - | - | - |
| Interest and rents | - | - | - |
| Other revenue | - | - | - |
| Total revenues | <u>3,801</u> | <u>211,900</u> | <u>60,850</u> |
| EXPENDITURES | | | |
| Current | | | |
| Judicial | - | - | - |
| General government | - | - | - |
| Public safety | - | - | - |
| Public works | - | - | - |
| Health and welfare | 3,586 | - | - |
| Recreation and cultural | - | - | - |
| Debt Service | | | |
| Principal | - | 175,000 | 50,000 |
| Interest | - | 36,900 | 10,850 |
| Total expenditures | <u>3,586</u> | <u>211,900</u> | <u>60,850</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | <u>215</u> | <u>-</u> | <u>-</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Operating transfers in | - | - | - |
| Operating transfers (out) | - | - | - |
| | <u>-</u> | <u>-</u> | <u>-</u> |
| EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES | 215 | - | - |
| FUND BALANCES, beginning of the year | <u>77</u> | <u>-</u> | <u>-</u> |
| FUND BALANCES, end of the year | <u>\$ 292</u> | <u>\$ -</u> | <u>\$ -</u> |

| 1989 Water / Sewer Bond | Alpena County Building Authority Debt | Alpena County Building Authority Capital | Equipment and Replacement | Total Non-Major Governmental Funds |
|-------------------------------|---------------------------------------------|------------------------------------------------|------------------------------|---------------------------------------------|
| \$ - | \$ - | \$ - | \$ - | \$ 1,213,514 |
| - | - | - | - | 4,702 |
| - | - | - | - | 460,760 |
| - | - | - | - | 451,399 |
| 140,117 | 180,279 | - | - | 656,645 |
| - | - | - | - | 1,647,163 |
| - | - | - | - | 3,500 |
| - | 324,059 | 20 | 3,800 | 498,684 |
| - | - | 5,200 | 50,300 | 227,824 |
| <u>140,117</u> | <u>504,338</u> | <u>5,220</u> | <u>54,100</u> | <u>5,164,191</u> |
| - | - | - | - | 12,766 |
| - | - | - | - | 25,610 |
| - | - | - | - | 929,764 |
| 775 | - | - | - | 775 |
| - | - | - | - | 1,500,129 |
| - | - | 10,217 | - | 1,963,279 |
| 120,000 | 345,008 | - | 145,291 | 842,352 |
| 19,342 | 137,125 | - | 48,890 | 253,107 |
| <u>140,117</u> | <u>482,133</u> | <u>10,217</u> | <u>194,181</u> | <u>5,527,782</u> |
| - | 22,205 | (4,997) | (140,081) | (363,591) |
| - | - | - | 160,000 | 742,653 |
| - | - | - | - | (88,721) |
| - | - | - | 160,000 | 653,932 |
| - | 22,205 | (4,997) | 19,919 | 290,341 |
| - | 138,703 | 4,997 | 129,905 | 1,180,111 |
| <u>\$ -</u> | <u>\$ 160,908</u> | <u>\$ -</u> | <u>\$ 149,824</u> | <u>\$ 1,470,452</u> |

County of Alpena

COMBINING BALANCE SHEET - FIDUCIARY FUNDS

December 31, 2005

| | Trust and Agency Fund | Library Penal Fund |
|------------------------------------|-----------------------------|--------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 1,081,688 | \$ 82,857 |
| Investments | - | - |
| Interest and accounts | - | - |
| | <u>\$ 1,081,688</u> | <u>\$ 82,857</u> |
| LIABILITIES AND FUND EQUITY | | |
| Accrued payroll and withholdings | \$ 39,803 | \$ - |
| Other liabilities and deposits | <u>1,041,885</u> | <u>82,857</u> |
| | <u>1,081,688</u> | <u>82,857</u> |
| Fund balances | - | - |
| | <u>\$ 1,081,688</u> | <u>\$ 82,857</u> |

| Employee Sick Pay | Totals |
|-------------------------|---------------------|
| \$ 226,176 | \$ 1,390,721 |
| 15,112 | 15,112 |
| 56 | 56 |
| <u>\$ 241,344</u> | <u>\$ 1,405,889</u> |
| | |
| \$ 241,344 | \$ 281,147 |
| - | 1,124,742 |
| | |
| 241,344 | 1,405,889 |
| | |
| - | - |
| | |
| <u>\$ 241,344</u> | <u>\$ 1,405,889</u> |

County of Alpena

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
AGENCY FUNDS**

Year Ended December 31, 2005

| | Balances Jan 01, 05 | Additions | Deductions | Balances Dec 31, 05 |
|----------------------------------|------------------------|----------------------|----------------------|------------------------|
| TRUST AND AGENCY FUND | | | | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,397,661 | \$ 15,502,971 | \$ 15,818,944 | \$ 1,081,688 |
| | <u>\$ 1,397,661</u> | <u>\$ 15,502,971</u> | <u>\$ 15,818,944</u> | <u>\$ 1,081,688</u> |
| LIABILITIES | | | | |
| Payroll withholdings and other | \$ 96,124 | \$ 1,625,716 | \$ 1,682,037 | \$ 39,803 |
| Other liabilities and deposits | <u>1,301,537</u> | <u>13,996,894</u> | <u>14,256,546</u> | <u>1,041,885</u> |
| | <u>\$ 1,397,661</u> | <u>\$ 15,622,610</u> | <u>\$ 15,938,583</u> | <u>\$ 1,081,688</u> |
| LIBRARY PENAL FUND | | | | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 71,131 | \$ 166,079 | \$ 154,353 | \$ 82,857 |
| | <u>\$ 71,131</u> | <u>\$ 166,079</u> | <u>\$ 154,353</u> | <u>\$ 82,857</u> |
| LIABILITIES | | | | |
| Other liabilities and deposits | \$ 71,131 | \$ 166,079 | \$ 154,353 | \$ 82,857 |
| | <u>\$ 71,131</u> | <u>\$ 166,079</u> | <u>\$ 154,353</u> | <u>\$ 82,857</u> |
| EMPLOYEE SICK PAY FUND | | | | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 219,170 | \$ 7,016 | \$ 10 | \$ 226,176 |
| Investments | 14,693 | 419 | - | 15,112 |
| Interest and accounts receivable | <u>14</u> | <u>56</u> | <u>14</u> | <u>56</u> |
| | <u>\$ 233,877</u> | <u>\$ 7,491</u> | <u>\$ 24</u> | <u>\$ 241,344</u> |
| LIABILITIES | | | | |
| Payroll withholdings and other | \$ 233,877 | \$ 7,490 | \$ 23 | \$ 241,344 |
| | <u>\$ 233,877</u> | <u>\$ 7,490</u> | <u>\$ 23</u> | <u>\$ 241,344</u> |

County of Alpena

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
AGENCY FUNDS**

Year Ended December 31, 2005

| | Balances Jan 01, 05 | Additions | Deductions | Balances Dec 31, 05 |
|----------------------------------|------------------------|----------------------|----------------------|------------------------|
| TOTALS - ALL AGENCY FUNDS | | | | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,687,962 | \$ 15,676,066 | \$ 15,973,307 | \$ 1,390,721 |
| Investments | 14,693 | 419 | - | 15,112 |
| Interest and accounts receivable | 14 | 56 | 14 | 56 |
| | <u>\$ 1,702,669</u> | <u>\$ 15,676,541</u> | <u>\$ 15,973,321</u> | <u>\$ 1,405,889</u> |
| LIABILITIES | | | | |
| Payroll withholdings and other | \$ 330,001 | \$ 1,633,206 | \$ 1,682,060 | \$ 281,147 |
| Other liabilities and deposits | 126,379 | 14,162,973 | 14,410,899 | 1,124,742 |
| | <u>\$ 1,702,669</u> | <u>\$ 15,796,179</u> | <u>\$ 16,092,959</u> | <u>\$ 1,405,889</u> |

County of Alpena

SCHEDULE OF INDEBTEDNESS

December 31, 2005

| | <u>Interest Rate</u> | <u>Date of Maturity</u> | <u>Principal Payable</u> | <u>Annual Interest Payable</u> |
|-----------------------------------------------------|--------------------------|---------------------------------|------------------------------|----------------------------------------|
| PRIMARY GOVERNMENT - GOVERNMENTAL ACTIVITIES | | | | |
| Alpena County Water Supply | 7.50% | 2006 | \$ 50,000 | \$ 7,125 |
| System No. 5 | 7.50% | 2007 | 25,000 | 4,313 |
| Date of Issue: May 1, 1989 | 7.50% | 2008 | 25,000 | 2,438 |
| Amount of Issue: \$870,000 | 7.50% | 2009 | 20,000 | 750 |
| | | | <u>120,000</u> | <u>14,626</u> |
| County of Alpena | 7.45% | 2006 | 75,000 | 10,463 |
| 1989 Series G.O. Refunding Bonds | 7.50% | 2007 | 65,000 | 4,875 |
| Date of Issue: May 4, 1989 | | | | |
| Amount of Issue: \$3,005,000 | | | <u>140,000</u> | <u>15,338</u> |
| Alpena County Sanitary Sewage | 5.00% | 2006 | 175,000 | 28,000 |
| Unlimited Tax Refunding Bonds | 5.00% | 2007 | 195,000 | 19,250 |
| Date of Issue: January 12, 1994 | 5.00% | 2008 | 190,000 | 9,500 |
| Amount of Issue: \$2,705,000 | | | <u>560,000</u> | <u>56,750</u> |
| Alpena County Building Authority | 4.75% | 2006 | 105,000 | 38,054 |
| Building Authority Bonds | 4.75% | 2007 | 105,000 | 33,068 |
| Date of Issue: March 1, 1998 | 4.75% | 2008 | 115,000 | 27,841 |
| Amount of Issue: \$1,360,000 | 4.75% | 2009 | 120,000 | 22,260 |
| | 4.75% | 2010 | 130,000 | 16,322 |
| | 4.85% | 2011 | 130,000 | 10,082 |
| | 4.95% | 2012 | 140,000 | 3,465 |
| | | | <u>845,000</u> | <u>151,092</u> |

County of Alpena

SCHEDULE OF INDEBTEDNESS

December 31, 2005

| | <u>Interest Rate</u> | <u>Date of Maturity</u> | <u>Principal Payable</u> | <u>Annual Interest Payable</u> |
|-----------------------------------------------------------------|--------------------------|---------------------------------|------------------------------|----------------------------------------|
| PRIMARY GOVERNMENT - GOVERNMENTAL ACTIVITIES (continued) | | | | |
| Alpena County Building Authority | 4.70% | 2006 | \$ 65,000 | \$ 25,253 |
| Building Authority Bonds | 4.85% | 2007 | 70,000 | 22,027 |
| Date of Issue: November 1, 1999 | 5.00% | 2008 | 80,000 | 18,330 |
| Amount of Issue: \$840,000 | 5.10% | 2009 | 40,000 | 15,310 |
| | 5.20% | 2010 | 40,000 | 13,250 |
| | 5.25% | 2011 | 40,000 | 11,160 |
| | 5.30% | 2012 | 40,000 | 9,050 |
| | 5.40% | 2013 | 40,000 | 6,910 |
| | 5.50% | 2014 | 50,000 | 4,455 |
| | 5.60% | 2015 | 55,000 | 1,540 |
| | | | <u>520,000</u> | <u>127,285</u> |
| Alpena County Building Authority | 4.00% | 2006 | 55,000 | 18,083 |
| Building Authority Bonds | 4.10% | 2007 | 60,000 | 16,983 |
| Date of Issue: September 1, 2001 | 4.20% | 2008 | 60,000 | 15,753 |
| Amount of Issue: \$995,000 | 4.30% | 2009 | 65,000 | 14,493 |
| | 4.40% | 2010 | 70,000 | 13,096 |
| | 4.50% | 2011 | 70,000 | 11,555 |
| | 4.60% | 2012 | 75,000 | 9,980 |
| | 4.80% | 2013 | 80,000 | 8,255 |
| | 4.90% | 2014 | 80,000 | 6,335 |
| | 5.00% | 2015 | 85,000 | 4,375 |
| | 5.00% | 2016 | 90,000 | 2,250 |
| | | | <u>790,000</u> | <u>121,158</u> |
| Alpena County Building Authority | 3.60% | 2006 | 110,000 | 19,705 |
| Building Authority Bonds | 3.90% | 2007 | 95,000 | 15,745 |
| Date of Issue: February 1, 2002 | 4.10% | 2008 | 90,000 | 12,040 |
| Amount of Issue: \$960,000 | 4.30% | 2009 | 70,000 | 8,350 |
| | 4.40% | 2010 | 60,000 | 5,340 |
| | 4.50% | 2011 | 60,000 | 2,700 |
| | | | <u>485,000</u> | <u>63,880</u> |

County of Alpena

SCHEDULE OF INDEBTEDNESS

December 31, 2005

| | <u>Interest Rate</u> | <u>Date of Maturity</u> | <u>Principal Payable</u> | <u>Annual Interest Payable</u> |
|-----------------------------------------------------------------|--------------------------|---------------------------------|------------------------------|----------------------------------------|
| PRIMARY GOVERNMENT - GOVERNMENTAL ACTIVITIES (continued) | | | | |
| Alpena County Building Authority | 4.40% | 2006 | \$ 15,668 | \$ 3,192 |
| Commercial bank loan | 4.40% | 2007 | 16,358 | 2,502 |
| Date of Issue: April 12, 2002 | 4.40% | 2008 | 17,077 | 1,783 |
| Amount of Issue: \$135,000 | 4.40% | 2009 | 17,829 | 1,031 |
| | 4.40% | 2010 | 5,607 | 247 |
| | | | <u>72,539</u> | <u>8,755</u> |
| Alpena County Northern Lights Arena | | | | |
| Intergovernmental loan | | | | |
| Date of Issue: February 1, 2003 | | | | |
| Amount of Issue: \$112,500 | 0.00% | 2006 | <u>95,504</u> | <u>-</u> |
| | | | <u>95,504</u> | <u>-</u> |
| INSTALLMENT PURCHASE AGREEMENTS | | | | |
| Various installment purchase agreements | | 2006 | 92,164 | 6,532 |
| | | 2007 | 63,158 | 3,175 |
| | | 2008 | <u>31,755</u> | <u>656</u> |
| | | | <u>187,077</u> | <u>10,363</u> |
| Total Primary Government - Governmental Activities | | | <u>\$ 3,815,120</u> | <u>\$ 569,247</u> |

County of Alpena

SCHEDULE OF INDEBTEDNESS

December 31, 2005

| | <u>Interest Rate</u> | <u>Date of Maturity</u> | <u>Principal Payable</u> | <u>Annual Interest Payable</u> |
|---------------------------------------------|--------------------------|---------------------------------|------------------------------|----------------------------------------|
| DISCRETELY PRESENTED COMPONENT UNITS | | | | |
| Alpena General Hospital | | | | |
| Alpena General Hospital | 4.850% | 2006 | \$ 300,000 | \$ 296,119 |
| 1999 G.O. Improvement Bonds | 4.875% | 2007 | 300,000 | 281,531 |
| Date of Issue: November 1, 1999 | 4.875% | 2008 | 325,000 | 266,297 |
| Amount of Issue: \$7,525,000 | 4.875% | 2009 | 325,000 | 250,453 |
| | 4.875% | 2010 | 350,000 | 234,000 |
| | 4.875% | 2011 | 375,000 | 216,328 |
| | 4.875% | 2012 | 375,000 | 198,047 |
| | 4.875% | 2013 | 400,000 | 179,156 |
| | 4.875% | 2014 | 425,000 | 159,047 |
| | 4.875% | 2015 | 450,000 | 137,719 |
| | 4.875% | 2016 | 475,000 | 115,172 |
| | 4.875% | 2017 | 500,000 | 91,406 |
| | 4.875% | 2018 | 525,000 | 66,422 |
| | 4.875% | 2019 | 550,000 | 40,219 |
| | 4.875% | 2020 | 550,000 | 13,406 |
| | | | <u>6,225,000</u> | <u>2,545,322</u> |
| Alpena General Hospital | 5.000% | 2006 | 225,000 | 259,537 |
| 2000 G.O. Improvement Bonds | 5.000% | 2007 | 225,000 | 248,287 |
| Date of Issue: May 1, 2000 | 5.000% | 2008 | 250,000 | 237,037 |
| Amount of Issue: \$5,875,000 | 5.000% | 2009 | 275,000 | 224,537 |
| | 5.000% | 2010 | 275,000 | 210,787 |
| | 5.000% | 2011 | 300,000 | 197,038 |
| | 5.000% | 2012 | 325,000 | 182,038 |
| | 5.125% | 2013 | 325,000 | 165,788 |
| | 5.125% | 2014 | 325,000 | 149,131 |
| | 5.200% | 2015 | 350,000 | 132,475 |
| | 5.250% | 2016 | 375,000 | 114,275 |
| | 5.250% | 2017 | 375,000 | 94,588 |
| | 5.350% | 2018 | 400,000 | 74,900 |
| | 5.350% | 2019 | 450,000 | 53,500 |
| | 5.350% | 2020 | 550,000 | 29,425 |
| | | | <u>5,025,000</u> | <u>2,373,343</u> |

County of Alpena

SCHEDULE OF INDEBTEDNESS

December 31, 2005

| | <u>Interest Rate</u> | <u>Date of Maturity</u> | <u>Principal Payable</u> | <u>Annual Interest Payable</u> |
|---------------------------------------------------------|--------------------------|---------------------------------|------------------------------|----------------------------------------|
| DISCRETELY PRESENTED COMPONENT UNITS (continued) | | | | |
| Alpena General Hospital | | | | |
| Alpena General Hospital | 3.57% | 2006 | \$ 785,000 | \$ 86,931 |
| 2003 G.O. Improvement Bonds | 3.57% | 2007 | 810,000 | 58,905 |
| Date of Issue: May 1, 2003 | 3.57% | 2008 | <u>840,000</u> | <u>29,988</u> |
| Amount of Issue: \$3,925,000 | | | <u>2,435,000</u> | <u>175,824</u> |
| | | | | |
| Alpena General Hospital | 4.27% | 2006 | 215,034 | 31,018 |
| Equipment notes payable | 4.27% | 2007 | 224,399 | 21,420 |
| Date of Issue: June 30, 2004 | 4.27% | 2008 | 234,172 | 10,778 |
| Amount of Issue: \$1,128,035 | 4.27% | 2009 | 244,370 | 6,574 |
| | 4.27% | 2010 | <u>20,838</u> | <u>74</u> |
| | | | <u>938,813</u> | <u>69,864</u> |
| | | | | |
| Alpena General Hospital | 3.77% | 2006 | 139,121 | 20,935 |
| Equipment notes payable | 3.77% | 2007 | 144,457 | 15,599 |
| Date of Issue: June 30, 2005 | 3.77% | 2008 | 149,997 | 10,059 |
| Amount of Issue: \$728,383 | 3.77% | 2009 | 155,751 | 4,305 |
| | 3.77% | 2010 | <u>32,098</u> | <u>342</u> |
| | | | <u>621,424</u> | <u>51,240</u> |
| | | | | |
| Total discretely presented component units | | | <u>\$ 15,245,237</u> | <u>\$ 5,103,327</u> |

STRALEY, ILSLEY & LAMP P.C.

2106 U.S. 23 SOUTH, P.O. BOX 738

ALPENA, MICHIGAN 49707

TELEPHONE (989) 356-4531

FACSIMILE (989) 356-0494

Certified Public Accountants

PHILIP T. STRALEY, C.P.A.
ROBERT D. ILSLEY, C.P.A.
BERNARD R. LAMP, C.P.A.
TERRENCE D. YULE, C.P.A.
MARK L. SANDULA, C.P.A.
JAMES E. KRAENZLEIN, C.P.A., C.V.A.
SHANNA M. JOHNSON, C.P.A.
DONALD C. LEVREN

TAX, AUDIT AND BUSINESS CONSULTANTS

RETIRE
GORDON A. NETHERCUT, C.P.A.
CARL F. REITZ, C.P.A.
WARREN W. YOUNG, C.P.A.

May 15, 2006

To the Board of Commissioners
County of Alpena
Alpena, Michigan

We have audited the financial statements of the County of Alpena, Michigan for the year ended December 31, 2005, and have issued our report thereon dated May 15, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Audit Standards

As stated in our engagement letter dated February 10, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the County of Alpena's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County of Alpena's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County of Alpena's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the County of Alpena's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County of Alpena's compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by County of Alpena are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2005. We noted no transactions entered into by the governmental unit during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Management's estimate of the useful lives of fixed assets for depreciation purposes is based on historical information and industry estimates. We evaluated the assumptions used to develop depreciation expense in determining that it is reasonable in relation to the basic financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the governmental unit's financial reporting process (that is, cause future financial statement to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the County of Alpena, either individually or in the aggregate, indicate matters that could have a significant effect on the County of Alpena's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's basic financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County of Alpena's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Reportable Conditions

Reportable conditions involve matters coming to our attention, under standards established by the American Institute of Certified Public Accountants, relating to significant deficiencies in the design or operations of the internal control structure that, in our judgment, could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic of financial statements. Our consideration of the internal control structure would not necessarily disclose all matters that might be reportable conditions. However, none of the reportable conditions described below is believed to be a material weakness.

Imprest Checking Accounts

As part of their arrangement to operate independently from the County, several component units have established their own imprest checking accounts. These accounts are to be maintained with a pre-determined balance and all checks issued are to be reflected on a voucher drawn from funds on hand with the County Clerk's office. We believe that the balances deposited in these accounts should not be increased without knowledge and approval from the County. In addition, as part of the monthly bank reconciliation process all component units should account for these funds and balance with the County Treasurer. We have detected certain component units with amounts well in excess of the stated imprest amount. Either the accounting entry should be changed to reflect the true balance held in the imprest account or the excess amount should be returned to the County.

Other Matters

1. **Recent Pronouncements.** The Governmental Accounting Standards Board and Michigan Department of Treasury, in its continuing process of updating the accounting principles that all governments must adhere to, has issued the following recent pronouncements that will have an impact on the way the County of Alpena maintains its financial records:
 - A. **GASB Statement No. 47 - Accounting for Termination Benefits.** This statement establishes accounting standards for termination benefits. In financial statements prepared on an accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted and the amount can be estimated. In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources. The requirements of this statement are effective for financial statements of the County of Alpena, Michigan for the year ended December 31, 2006.
 - B. **GASB Statement No. 46 Net Assets Restricted by Enabling Legislation.** This statement clarifies that a legally enforceable enabling legislation restriction is one that a government is required to disclose the portion of net total assets that is restricted. The requirements of this statement are effective for financial statements of the County of Alpena for the year ended December 31, 2006.

C. **GASB Statement No. 45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.** This statement will require governmental units to record the cost of benefits (such as health insurance, life insurance, etc) in the periods when the related services are received by the employer if these benefits are not provided for through a pension plan. This will require the County to accrue and report an actuarially computed liability for any future postemployment benefit other than pensions. The requirements of this statement are effective for financial statements of the County of Alpena for the year ended December 31, 2008.

2. **Issues Likely to Impact Local Governmental Units.** Over the past couple of years, and potentially for a few years beyond, the County of Alpena will be impacted by a number of significant financial issues. With the decline in the economy of the State of Michigan, financial markets, and declining tax collections, local governmental units are likely to see a continued reduction in State appropriations and payment in lieu of tax obligations (PILT). In addition, the number of homeowners who have eliminated their use of telephone landlines and opting to use cellphones only, continues to decrease the County's ability to generate 911 surcharge revenue. Also, because pension contributions are based upon actuarial assumptions of the pension fund's asset base and earnings, any sustained downturn in the financial markets would most likely require increased contributions. Unrelated to the financial markets, the cost of health insurance premiums will most likely continue rising at double digit rates. Obviously, local governmental units will need to proceed with financial caution in mind.

We wish to thank the staff of the County of Alpena for their assistance during the audit.

This report is intended solely for the information and use of the Board of Commissioners of the County of Alpena, Michigan Department of Treasury, Management, and others within the governmental unit and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which upon acceptance by County of Alpena, is a matter of public record.

We appreciate the opportunity to serve County of Alpena. If you have any questions, or if we can be of further service, please do not hesitate to contact us.

Straley, Ilsley & Lamp P.C.